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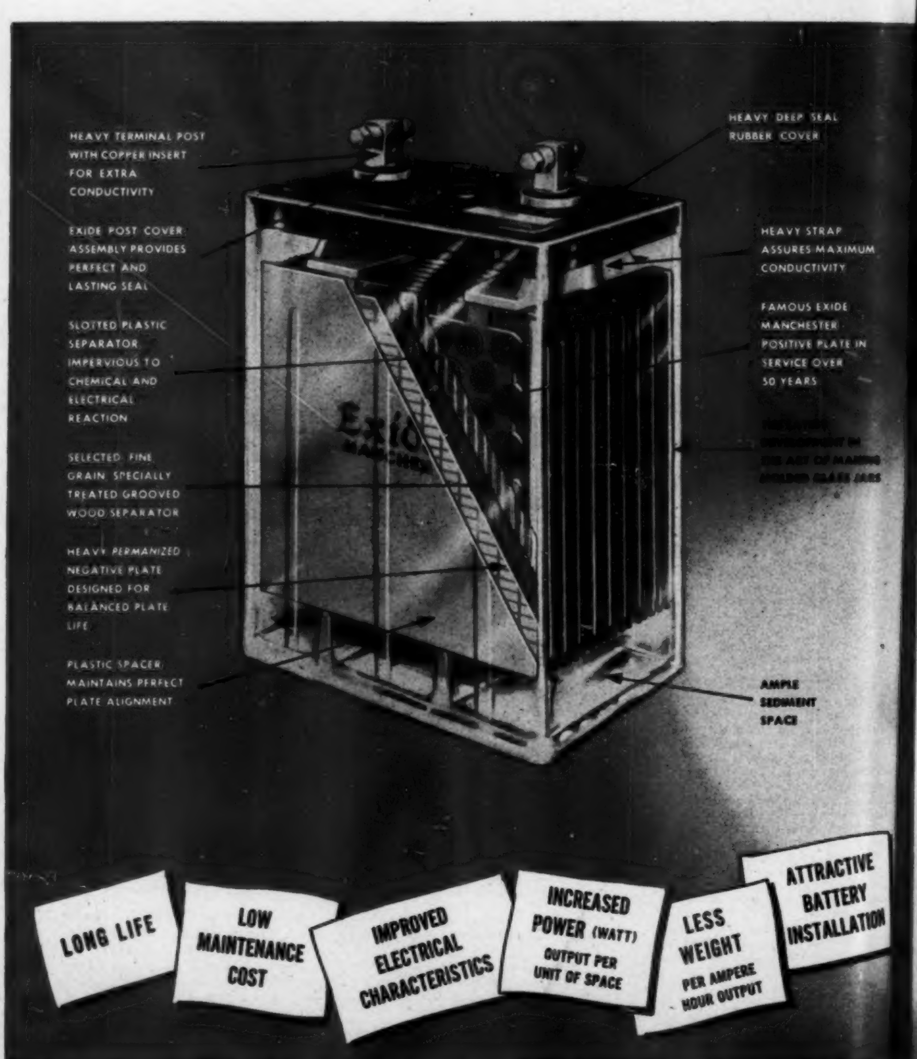

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Pages with the Editors

It would be a gross understatement to say that the opening session of the 81st Congress will consider many matters of vital interest to public utilities. Indeed with the accent on the public power issue, which featured President Truman's victorious campaign, together with labor, taxes, and other matters, public utilities find themselves in the forefront of interested parties, as the new Congress begins its important work in what promises to be the most critical of postwar years.

It is no secret that the public utility industries face difficulties. Just how great these difficulties are, and how they are likely to shape up in terms of legislative action, are questions that can only be answered, even roughly, by experienced observers and analysts who have gone through, name by name, the list of the Senate and House membership and committees and test votes and comparisons of the 80th with the 81st Congress.

Such research, plus a background of information on pertinent legislation likely to come to a vote, constitutes the scope of our annual Washington outlook article, which is generally featured in the first issue of every New Year. Our managing editor, Francis X. Welch, who has been attending to this duty for the past few years, brings to his article this year a fairly good record of past performance in the light of predictions he made a year ago in our issue of January 1, 1948.

EDMOND M. HANRAHAN

As will be seen in the box score contained in his article which leads this issue, Mr. Welch scored eight perfectly accurate predictions out of ten, and was partially right on the other two, giving a percentage figure of 90 per cent. That is not at all bad, during a year when political forecasting in so many places suffered catastrophic casualties. Fortunately, perhaps, Mr. Welch did not attempt to forecast election results in his January, 1948, article. Otherwise his record might not have held up so well.

But confining his attention to the Washington scene, it does appear from his current forecasts that there are breakers ahead for all public utilities and all classes of business. This is hardly news, judging by the recent performance in the stock markets. But it *is* important for those responsible for carrying on public service companies to get some fairly representative picture of specific things likely to come up, so as to orient their own activity to the congressional barometric readings.

One thing that impresses us as we read Mr. Welch's analysis of likely congressional sentiment on measures affecting public utility industries is the great need for indoctrinating so many incoming Congressmen, as well as the people who sent them to Washington. If they could only be educated to some plain and simple truths about indisputable facts, the problems of all industry with Washington would be greatly diminished.

For example, consider the results of a poll taken by our esteemed contemporary,

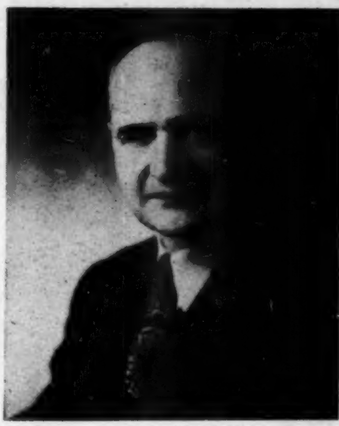
Railway Age, among railway employees, showing that 53 per cent of them believed that in 1944 the railroads made from 25 per cent to 75 per cent profit on their investment. The plain, indisputable fact, as officially shown by the Interstate Commerce Commission, was that the combined profits of all railroads for that year amounted to only a fraction over 4 per cent.

OBVIOUSLY, if utility employees do not understand how much profit their own industry is making, we can hardly expect the general public or even Congressmen to have a high degree of accurate information. Yet, it is Congress which will pass on these various matters of labor legislation, taxation, public ownership, and so forth. Even democratic free enterprise can only be said to be superior to state Socialism or Communism to the extent that the public is aware of it, and recognizes its advantages.

THE 81st Congress was elected by a public, the majority of whom apparently are disposed to favor further experiments with socialistic trends in government policy and legislation. The burden of proof is going to be put on industry to make a case for any other or different policy. It is a challenge, but it can be done over the long run, if there is anything to the old maxim about the truth prevailing.

* * * *

THOSE who heard SEC CHAIRMAN HANRAHAN'S featured address at the 1948 convention of the American Gas Association at Atlantic City last October will know that a thought-provoking article is in store for our readers in this official's contribution to our New Year's issue. CHAIRMAN HANRAHAN is a native of New York and a graduate of Fordham University Law School (LLB, '28). In May, 1933, he became a partner in the firm of Sullivan & Donovan, and was an active legal practitioner in the New York area until July 22, 1946, when he was appointed by President Truman to the Securities and Exchange Commission to fill the vacancy created by the resignation of former SEC Chairman Ganson Purcell. He was later reappointed for a full term, expiring June 5, 1952, and on May 18, 1948, he was unanimously elected chairman, which post he still holds.



P. P. STATHAS

* * * *

P. P. STATHAS, whose article on the future prospects in the electric and telephone field begins on page 20, has since 1936 been associated with the firm of Duff & Phelps, public utility security analysts of Chicago. In 1938 he was admitted to partnership and is now senior partner. MR. STATHAS has been very active in professional engineering circles. He is a graduate of the College of Engineering of Marquette University (BSEE, '23). In 1929 he also received the degree of Electrical Engineer from the same institution. MR. STATHAS began his career with the Milwaukee Electric Railway & Light Company (now Wisconsin Electric Power Company), working up in various engineering capacities to the post of senior engineer, which he held prior to joining his present organization. He has written a number of articles and made a number of addresses on the subject of public utility financing, economics, and engineering problems.

THE next number of this magazine will be out January 20th.

The Editors

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Coming IN THE NEXT ISSUE

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THE GOVERNMENT'S HIGH COST OF LIVING

For a number of years the so-called "economy bloc" in the U. S. Senate has been lead by a resolute and courageous Democrat from Virginia, Senator Harry Flood Byrd. Even recent shifts in political trends and public attitude toward spending have not stirred the Virginia Senator from his firm belief in the necessity of the Federal government living within its means. This exclusive article outlines the impact of the government's high cost of living on the nation's tax-paying industrial economy including the public utility industry.

KEEPING THE INVESTOR IN A HAPPY MOOD

What utility industries can do to capture investor confidence to the point of making equity financing practical and profitable is probably the most pressing managerial problem immediately confronting the industry. Adding up a number of attractive practices and devices may possibly make the necessary sum total to coax the investor into a happier frame of mind. Harold H. Young, well-known New York city specialist on utility securities, analyzes the possibility of such procedure.

OUTLOOK FOR STATE LEGISLATION AFFECTING PUBLIC UTILITIES

With the legislatures of 44 out of 48 states meeting in regular session during the year and a number of other special sessions likely to occur, the year 1949 promises to be a busy one from the standpoint of utilities at the various state capitals. Bethune Jones, legislative research writer, has endeavored to put together a preview of what the utility industries may expect by way of new legislative proposals and new state laws in the year ahead.

PUBLIC UTILITIES IN THE WHITE HOUSE

Barely more than a hundred years ago gas utility service was first introduced in the White House at Washington. Water service and interior plumbing had been installed not very much earlier, while electricity and telephone service to the White House was delayed until the time of Benjamin Harrison. Roscoe Ames, Washington writer, in an interesting historical review, recalls the facts and circumstances surrounding the installation and improvement of public utility services in the nation's No. 1 family residence.

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***

Remarkable Remarks

"There never was in the world two opinions alike."
—Montaigne

Joseph W. Martin, Jr.
U. S. Representative from Massachusetts.

"We must stand guard against the ever-advancing tide of state Socialism."

David E. Lilienthal
Chairman, United States Atomic Energy Commission.

"This world sorely needs the spirit of reasonableness, mutual respect, and brotherliness."

Earl Bunting
Managing director, National Association of Manufacturers.

"Our phrase 'We are unalterably opposed to it' is out. Who cares what we oppose? They (the people) want to know what we propose."

John E. Goble
President, National Tube Company.

"Development of human relations to keep pace with technological growth is now one of the most important jobs facing American industry."

George E. Sokolsky
Columnist.

"This is certain: Those who have believed for years that this country is slowly and unnecessarily moving toward Socialism will continue to combat that trend."

Editorial Statement
Chicago Journal of Commerce.

"In big business—and the United States government is the world's biggest business—it takes top managerial talent to operate effectively. And talent costs money."

Allan Sproul
President, Federal Reserve Bank of New York.

"We must quit thinking and talking as if the immediate reconversion after the war has been completed and that we can now proceed, as if we were at peace, to do the things we might do if we were completely at peace."

Roy C. Newton
Vice president, Swift & Company.

"Straight thinking, based on facts and indulged in most of the time by a relatively large portion of the people, is the long-range problem of civilization. It is the method of science and it is the responsibility of scientists to teach the method as well as practice it."

William L. Batt
President, SKF Industries, Inc.

"Too many people are convinced of the superiority of our way of life and yet are suspicious of the forces responsible for it. The enterprise system isn't perfect, but it is the best means yet devised for sharing the fruits of production. But our people need to know this."

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J. CLYDESDALE CUSHMAN
President, National Association of Building Owners and Managers.

"From a hard-working, thrifty people we have become a race of free-spenders, and free spending, the economists would have us believe, is what keeps prosperity going."

JOHN W. HANES
Former Under Secretary of the Treasury.

"Instead of encouraging more and more production, governmental fiscal policies and high tax rates are drying up the sources of venture capital and stand in the way of the creation of new risk capital."

ARTHUR VANDENBURG
U. S. Senator from Michigan.

"Our overriding aim is not to contain Russia. Our purpose is not to Americanize Europe. Our objective is to return Europe to the Europeans—and take them off the dole. When this is done, our objective is to retire from a Europe which has restabilized itself."

WILBUR J. BRONS
Columnist.

"The modern liberal is a man who believes in bigger and bigger Federal government, regardless of economic consequences or damage to the fundamentals of the system. He will tell you that human dignity and freedom are useless unless government provides economic security for everyone."

THOMAS D'ARCY BROPHY
President, Kenyon & Eckhardt.

"By and large, there seems entirely too much belief in this country that production exists in a vacuum—that production is all-important and self-sufficient—that it lives by and for itself, without any help from distribution and without any active effort to seek out, cultivate, and increase the market."

HERBERT HOOVER
Former President of the United States.

"The meaning of our word America flows from one pure source. Within the soul of America is the freedom of mind and spirit of man. Here alone are the open windows through which pours the sunlight of the human spirit. Here alone human dignity is not a dream but a major accomplishment."

E. A. MATTISON
Executive vice president, Bank of America.

"We can discount any idea that small business is obsolete, and rejoice that small business is still the venturesome heart of free enterprise. It is good to know that there is still a host of men who, instead of subscribing to a government-sponsored cradle-to-the-grave philosophy, are willing to make the fight on their own."

MAX W. BALL
Former director, oil and gas division, U. S. Department of the Interior.

"Federal and state governments regulate the price of most gas from the pipe-line intake to the consumer's burner; prices for coal and oil, the competing fuels, are regulated only by the rule of the market place. In many places, gas is cheaper today than coal or oil, heat unit for heat unit. If this continues, only one thing can happen: The whole of our energy load will shift to gas, the supply of which is not big enough to carry it."

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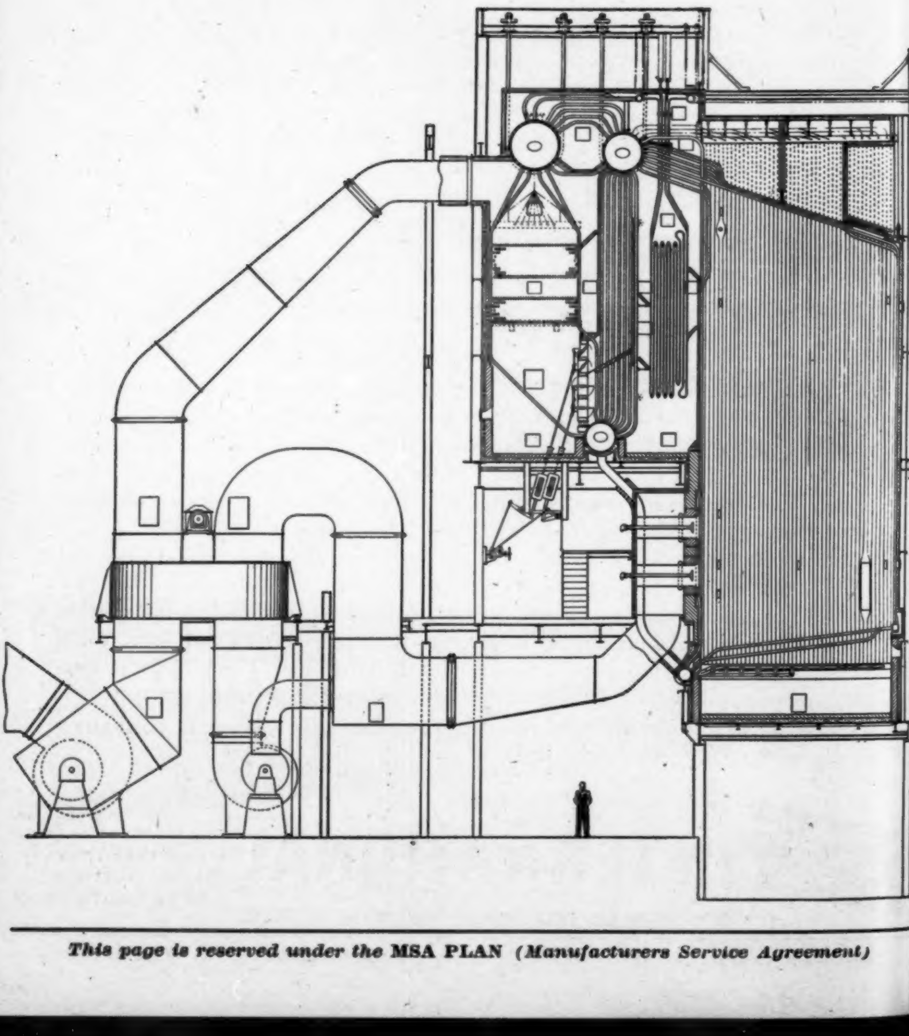
recent C-E steam generating units for utilities



Utilities Almanack

January

6	Th	¶ *American Water Works Association, New York Section, will hold annual midwinter luncheon meeting, New York, N. Y., Jan. 21, 1949.*
7	F	¶ *Columbia Broadcasting System will hold television clinic, New York, N. Y., Jan. 21–23, 1949.*
8	Sa	¶ *Minnesota Telephone Association will hold annual meeting, St. Paul, Minn., Jan. 24, 25, 1949.*
9	S	¶ *American Gas Association, Home Service Workshop, will hold annual convention, Cleveland, Ohio, Jan. 24–27, 1949.*
10	M	¶ *Institute of Radio Engineers and American Institute of Electrical Engineers begin joint conference, Washington, D. C., 1949.*
11	Tu	¶ *American Society of Heating and Ventilating Engineers will hold annual convention, Chicago, Ill., Jan. 24–27, 1949.*
12	W	¶ *International Heating and Ventilation Exposition will be held, Chicago, Ill., Jan. 24–28, 1949.*
13	Th	¶ *Academy of Television and Sciences annual award banquet and seminar, Hollywood, Cal., Jan. 25, 1949.*
14	F	¶ *American Institute of Electrical Engineers will hold annual meeting, New York, N. Y., Jan. 31–Feb. 4, 1949.*
15	Sa	¶ *National Association of Broadcasters will hold board of directors meeting, New Orleans, La., Feb. 14–16, 1949.*
16	S	¶ *National Electrical Manufacturers Association will hold winter convention, Chicago, Ill., Mar. 13–18, 1949.*
17	M	¶ *Oklahoma Utilities Association will hold annual meeting Tulsa, Okla., Mar. 17, 18, 1949.*
18	Tu	¶ *National Association of Corrosion Engineers will hold annual conference and exhibition, Cincinnati, Ohio, Apr. 11–14, 1949.*
19	W	¶ *American Society of Civil Engineers begins annual meeting, New York, N. Y., 1949.*

Winter Crossing

Walla Walla river plant aqueduct of Pacific Power & Light Company.

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Public Utilities
FORTNIGHTLY

Vol. XLIII, No. 1 — January 6, 1949

The Washington Outlook for Public Utilities—1949

Analysis of the possible consequences of new developments in Congress and Federal agencies respecting various utility industries during the New Year.

By FRANCIS X. WELCH*

ALTHOUGH the wags among the newspaper reporters can't seem to make up their minds whether to call the new administration "Truly Truman" or the "Tru Deal," it is generally admitted that the forthcoming inauguration will officially proclaim the marriage of President Truman—in his political life—to the New Deal. Not that there ever was much doubt about President Truman's following the New Deal line on domestic policies. But in view of the type of campaign waged so unexpectedly successful by President Truman, his message to the 81st Congress should make the merger official.

The only rift in the lute is the hazard which has come to so many similar triumphal celebrations; namely, that some of the invited guests will be feeling so good that a fight will break out between friends.

The gathering of the 81st Congress will contain a certain amount of inflammable material. All the friends of the New Deal, new and old, and some who barely managed to catch on the band wagon with the tips of their fingernails, are on hand in Washing-

*Managing editor, PUBLIC UTILITIES FORTNIGHTLY, Washington, D. C.

ton, feeling themselves to be honored and invited guests entitled to special privileges and attention. But like a marriage feast to which more guests have been invited than the caterer can accommodate, some of these special interests are either going to be short-changed, or else the host is going to be embarrassed. When one considers all the promises made during the campaign, some actually conflicting with each other, the possibility of friendly argument becomes obvious.

CONSPICUOUSLY absent among the invited guests, however, are the leaders of American business and industry, especially the public utility industry. This, despite Secretary of Commerce Sawyer's assurance that no honest business need fear the new administration or the 81st Congress. Judging by recent stock market performance, either the investors don't take Secretary Sawyer too seriously or their opinion of much American business is less than reverent.

All of this is by way of suggesting that, congenial words to the contrary, the next Congress and administration are going to be somewhat antiutility in tone, if not somewhat antibusiness generally. There is a further implication that any power that may exist in Washington to block legislation hostile to business-managed utilities is not so likely to proceed from the efforts of the utility industries themselves or their representatives. To the extent that it will emerge at all, it is likely to come as a by-product of conflict between "friendly" interests.

Certainly the new administration will not lack "mandates"—judging by the number of new ones that are being brought up and thought up almost every day since the election. Farmer-Congressmen claim a mandate to keep commodity prices up. The consumer or housewife organizations claim a mandate to keep prices down. The Armed Forces see a responsibility for greater defense appropriations. The public works and popular spending lobbies, including those interested in public power projects, see a mandate to unleash a golden tide from the Federal purse, without let or hindrance, for more and bigger "projects."

Obviously the administration cannot make progress in half a dozen different directions at the same time. But which crowd will come out on top will be a matter of aggressive promotion in Congress. It suggests that line in the old vaudeville skit, "Cohen's Wedding," in which the bridegroom, commenting on the attending crowd, said "and if my people had not been good pushers, they would have had to stand up like her people did!"

THE first round in this competition for the taxpayer's dollar between the different agencies will be decided in Congress rather than in the President's budget recommendations. As far as the White House is concerned the President seems disposed to make the "Pentagon crowd" (meaning the Armed Forces) get enough defense out of a $15 billion allotment. But the "Pentagon crowd" has powerful friends in Congress.

Backing up the White House ceiling on the Armed Forces are the social planners who are opposed to any Federal spending for the Armed Forces or other purposes which would disrupt or delay the following: Federal

public power plants, new transmission lines, reclamation, public housing, and other things which compete with guns and planes for scarce materials and labor.

Needless to say the social planners have many friends in the new Congress. The economy bloc (that long-suffering bipartisan band of conservatives who have vainly tried to hold on to the purse strings year in and year out) has been decimated by the recent elections. The few survivors come from retreats below the Mason and Dixon line. But by virtue of seniority they hold some choice committee seats in both houses.

Yet it would be inaccurate to say that the businessman is to be the "forgotten man" of the 81st Congress. Business and industry will get plenty of attention, but mostly in a negative sort of way.

Representative Monroney (Democrat, Oklahoma) is likely to start the ball rolling in this direction with an investigation of lobbies by business organizations, which already has the approval of President Truman. It was the International Association of Machinists (independent union angered over passage of the Taft-Hartley Act) which suggested to the President, shortly after the election, that an investigation be made into the activities of special interest lobbies, specifically naming ten — including the National Association of Manufacturers, National Association of Electric Companies, and Association of American Railroads. President Truman in his reply agreed that a probe would have "a very salutary effect." So there is a good chance that it will be so ordered.

But that would be just a side show compared with the attention given to business by the House Ways and Means Committee in considering new corporate taxes, including a proposed revival of the excess profits tax.

Senator O'Mahoney (Democrat, Wyoming), who will have a powerful voice in the Senate, promises prompt attention to the revival of the O'Mahoney-Kefauver Bill to extend antitrust laws. And the Labor committees of both houses will see to it that business interests are reminded of their shortcomings during hearings on the substitute bills to repeal the Taft-Hartley Act and increase the minimum wage provision of the Fair Labor Standards Act.

As for new public power legislation, it looks as if the "ayes" would have it on floor vote in either house, if and when such bills emerge from committees. There are complications, however, about new project policies along the line of the Missouri Valley Authority Bill to be introduced by Senator Murray (Democrat, Montana). The Interior Department and the Army Engi-

¶ "The *gathering of the 81st Congress will contain a certain amount of inflammable material. All the friends of the New Deal, new and old, and some who barely managed to catch on the band wagon with the tips of their fingernails, are on hand in Washington, feeling themselves to be honored and invited guests entitled to special privileges and attention.*"

RESULTS OF 1948 PROPHECY

Roughly, nine of the following ten predictions by Mr. Welch one year ago occurred as forecast.

1. *Utility rates will continue up.* Telephone and transit fares will be joined by gas and even some electric rates.	RIGHT *Telephone, transit, and even some gas and electric rates joined upward swing.*
2. *No new public power projects will be authorized in 1948.* St. Lawrence proposal stands the best chance but is given less than 50-50 chance of final enactment.	RIGHT *The St. Lawrence seaway proposal was killed when the Senate voted to pigeonhole it in committee.*
3. *Existing public power agencies will be well provided for.* The political popularity of REA and Reclamation Bureau spending will get generous appropriations.	RIGHT *Reclamation Bureau and REA both received record-breaking appropriations, although with some policy restrictions.*
4. *No major regulatory laws in 1948.* The Miller bills to amend the Federal Power Act and the Rizley Bill to amend the Natural Gas Act will get their day in Congress but no passage.	RIGHT *Both got as far as hearings but failed to move further.*
5. *Natural gas will get special attention but no legislation in 1948.*	RIGHT *In every detail.*
6. *Utilities will get the political spotlight in the 1948 campaign.* President Truman's campaign will emphasize public power at utility expense.	RIGHT *He did—successfully, too.*
7. *Taxes will be reduced on excise items and for personal income but not on corporate income generally.*	PARTIAL *Personal income taxes were lowered; but excises were not.*
8. *Price controls and rationing will be an issue if not an accomplished fact during 1948.*	RIGHT *A controversial issue but not a fact.*
9. *No substantial labor legislation during 1948, except, perhaps, an increased minimum wage standard.*	PARTIAL *The Taft-Hartley Act was not modified; but the minimum wage law still awaits revision.*
10. *The FPC will continue to allocate natural gas in short supply.* "This emergency power is beginning to show a faint sign of growing into a normal situation."	RIGHT *Judging by the controversy the signs are becoming less faint.*

The Author's 1949 Predictions Will Be Found on Page 9

neers and the Soil Conservation Service of the Agriculture Department have looked with jaundiced eyes on the establishment of more regional autonomies, à la TVA. But they will get in their best licks in committees. Matters which move out on to the floor for vote, such as the new steam plant for TVA at New Johnsonville, Tennessee, should have little difficulty.

A fair estimate of how the public power "bloc" has increased in numbers in the House of Representatives can be gained from the final analysis of a very critical test vote in the 80th Congress.

On January 22, 1948, there was a record vote in the House of Representatives on the Rockwell Bill (HR 2873) to amend the Reclamation Act. A motion was made to send the bill back to committee for amendment. This motion was opposed by the public power bloc as imposing undue restrictions on the Reclamation Bureau's public power activities. The test vote was on whether it should be sent back to the House committee with instructions for amendment.

In the 80th Congress, the public power bloc lost out and the amended bill passed the House of Representatives, chiefly with Republican votes. But it was promptly bottled up in the Senate committee, so that the chief significance of the House vote was a record of the sentiments of individual Congressmen. Let us see what happened to the Democratic and Republican Representatives who voted "yes" or "no," respectively. There were 167 Republicans and 44 Democrats who voted to amend the bill. There were 106 Democrats joined by 46 Republicans who voted contrary.

Out of the 167 Republicans in favor of the amendment, 66 will not be present in the 81st Congress — a casualty list of about 40 per cent. Of the 46 Republicans who voted the other way, 18 will not return—again an election casualty of about 40 per cent. The odd conclusion from this is that it did not make much difference which way Republicans of the 80th Congress voted on this public power issue—their percentage of loss being about the same on both sides of the question.

But with the Democrats it was a different story. Of the 44 Democrats who voted with the Republican majority, 10 have disappeared from the House—a casualty rate of 24 per cent. Of the 106 Democrats who formed the hard core of the minority, only 11 members — or about 10 per cent — failed to return — which is almost a routine minimum turnover (due to voluntary retirements, elevations to other offices, and so forth). Thus it would seem that it was more unhealthy for Democrats in the 80th Congress to vote against the public power line than for the Republicans.

In any event we may safely conclude that the public power bloc has been greatly augmented as a result of the large turnover of membership on both sides of the aisle. While it is too early to determine the proportionate sentiment of freshmen Congressmen, it is almost certain — judging from the heavy turnover in western states—that the newcomers are preponderantly propublic power, and propublic power in this case means a majority of favorable votes on appropriations bills affecting Reclamation Bureau, TVA, REA, and any other new project proposal which gets to the floor for a vote.

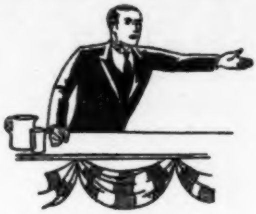
In the Senate the turnover was much less because of the longer tenure in the upper chamber. But enough is known about the freshmen Senators to forecast that the public power bloc (which had a fair majority even in the 80th Congress) has picked up added strength through the election of such Democrats as Humphrey of Minnesota, Kefauver of Tennessee, Neely of West Virginia, Kerr of Oklahoma, Johnson of Texas, and Douglas of Illinois.

It might also be noted in passing that a few Congressmen in the 80th Congress who indicated some sympathy for the problems of public utility industries, regulatory or otherwise, will be among the missing, notably Representatives Miller of Connecticut, Rizley of Oklahoma, Schwabe of Oklahoma, Gwynne of Iowa, Ploeser of Missouri, and Rockwell of Colorado —all Republicans.

With the composition of the new Congress thus shifted definitely towards the left, let us consider in succession ten specific items of interest to public utility industries, including policy matters which go beyond the realm of the congressional function:

1. *Reorganization.* At this writing the Hoover Commission (so-called because of its leadership by the ex-President) was having its own differences as to what kind of a report it would make with special regard to the consolidation of Federal agencies having public works functions. It is generally believed that an earlier report to set up a new department (with Cabinet rank) of public works, taking over the civil functions of the Army Engineers, Reclamation Bureau, and the Federal Works Agency, met with some opposition within the commission. It is still believed likely that the Hoover Commission will report something along these lines. But both the Interior Department and the Army Engineers already have their defenses organized. Thus, in spite of President Truman's request that Congress give the Hoover Commission's recommendations earnest consideration, the impression persists that nothing will be done to strip or curtail either Army or Interior Department of their important places in the public power construction field.

2. *Emergency controls.* On December 13, 1948, the National Security Resources Board issued its second general electric power survey under the direction of Edward Falck, chief NSRB consultant on utilities. The consistent attention, which the NSRB has been giving public utility matters generally, suggests the likelihood that this emergency planning board will have a special niche of its own for public utilities if, as, and when it emerges as a full-powered control board like WPB. This is important to remember in view of President Truman's determination to seek stand-by authority to order the allocation of materials and price controls in case of an international emergency. Of course, it is possible that these powers, if enacted, will be shared with other agencies, such as the Commerce Department. Since it is generally believed that the new Congress will grant the President these powers if requested, the fact that NSRB is a likely heir to the same is an item for public utilities generally to watch.



Predictions of Events for 1949

(Here is a summary of the things likely to occur in Washington of special concern to the public utility industry.)

1. *Reorganization.* The Hoover Commission on reorganization of Federal agencies is likely to recommend consolidation of the public works functions of Army Engineers and Interior Department; but the 81st Congress will not agree.
2. *Emergency controls.* Allocation of materials and price controls probably will be voted on a stand-by basis, permitting either the National Security Resources Board or Secretary of Commerce to augment organization, including a utility division.
3. *Gas regulation.* No revision of the Natural Gas Act in the 81st Congress, although bills will be introduced on the subject and the divided reports of the FPC investigation will be given congressional airing.
4. *Taxes.* Because of the pressure of armament spending there is little hope for reduction in excise taxes on telephone, telegraph, and passenger transport service. But higher corporate taxes are likely with a 50-50 chance of excess profits tax revival.
5. *Wage-hour law.* Congress will enact an amendment to the Fair Labor Standards Act increasing the minimum wage from 40 cents to approximately 75 cents an hour, with a good chance of wiping out exemptions now enjoyed by small telephone exchanges.
6. *Labor laws.* Changes in the Taft-Hartley Law will consist principally of validating closed shop agreements and switching the name to the Thomas-Lesinski Law. There's an outside chance that the "vital industry" provision (affecting utility strikes) may even be strengthened from the standpoint of presidential control.
7. *REA legislation.* Continued high appropriations and no restrictions will be voted for REA. There is even a chance that REA will be given additional statutory authority in the way of making loans for purchasing system property, building generators, and aiding rural telephone installation.
8. *New power projects.* The St. Lawrence has the best chance of affirmative action both in its power and seaway phases. But new valley authorities, led by MVA, face a tough struggle from old-line bureaus, and some farmer opposition.
9. *Federal power agencies.* Restrictions imposed by the 80th Congress on both the Tennessee Valley Authority (steam plant) and the Reclamation Bureau (transmission lines) are likely to be removed by the 81st Congress. Plentiful appropriations, especially for Reclamation.
10. *The FPC.* The regulatory policies of FPC will be oriented toward the propublic ownership and the more restrictive views of Olds-Draper-Buchanan (the latter to be confirmed by the Senate) with the Smith-Wimberly minority continuing to write dissenting opinions.

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3. *Gas regulation.* It is an academic controversy, at this point, to speculate as to whether the natural gas industry could not have done better with the 80th Congress had its objectives been more united and succinct. But certain it is that no bills to relieve the gatherers and producers of natural gas from alleged burdensome restrictions of the Natural Gas Act stand much chance of passage in the new Congress—as compared with the pas-

sage of the Rizley Bill through the House of Representatives in the 80th Congress. If anything, both oil and natural gas industries will have to be on the lookout for proposed legislation moving in the other direction—to expand or "clarify" the existing statutory restrictions on their operations.

4. *Taxes.* Thanks to opposition of Democrats in the Senate, left-wing proposals for revival of the excess profits tax are not due for easy passage. But the need for additional revenue to take care of rearmament and spending for social planning programs is believed likely to result in strong pressure to increase corporate income tax rates generally. While influential White House sources have leaked out hints to the effect that "nuisance" taxes may be repealed or curtailed, it is hard to see the 81st Congress enacting such relief in the matter of telephone, telegraph, bus, plane, and train passenger excise taxes. The argument is likely to be made that, in addition to the government needing the extra revenues, such taxes act as a check on unnecessary public use of services still in short supply.

5. *Wage-hour law.* For four consecutive years Congress has been considering bills to increase the minimum hourly wage provision of the Fair Labor Standards Act from its present 40-cent ceiling. The earlier demands for a 60-cent minimum seemed mild indeed compared to the recent demand by CIO President Murray for a $1 minimum. Striking between the two, it seems likely that Congress will finally decide on a 75-cent minimum.

In the process, however, the present law to exempt telephone operators' wages at exchanges of less than 500 stations may be changed to eliminate such exemption. The recent report of the Wages and Hours Committee to the National Conference on Labor Legislation criticized provisions of the present Fair Labor Standards Act which exempt its application to small exchange telephone operators. The committee recommended that the present act be amended to "extend its benefits to many more workers" and to bring the benefits of the act "to telephone workers in small telephone exchanges." This report, approved by the conference, is likely to be given sympathetic attention by the heavily prolabor membership in both the House and Senate committees.

6. *Labor laws.* As to the controversial Taft-Hartley Act, however, the suspicion is increasing in the nation's capital that there is going to be more wind than rain in store for the statute now on the books. The Republican name of the law, "Taft-Hartley," will, of course, be changed by the Democratic Congress, because it has become so obnoxious as a shibboleth to organized labor for campaign purposes. The new Democratic substitute measure will probably be called the "Thomas-Lesinski" law, after the respective chairmen of the two congressional labor committees.

The anticlosed shop provision and some of the restrictive clauses dealing with the responsibility of labor unions and labor union leaders seem due for revision. But beyond that, doubt is increasing that even labor leaders themselves want to see the entire content of the Taft-Hartley Act thrown overboard. Such provisions as the anti-

Communist pledge, prohibition against picketing violence, and secondary boycotts are almost certain to be retained. The authority already widely used by President Truman to suspend strikes in vital industries may even be strengthened somewhat. The thought here is that the President does not have sufficient control to prevent a really bad public utility strike or strike in other vital industries. He now merely has a suspension power for a "cooling off" period.

7. *REA legislation.* The Rural Electrification Administration seems to be assured of at least two more years of "eating high on the hog." One need only glance at the ambitious list of proposals which Clyde T. Ellis, executive manager of the National Rural Electric Coöperative Association, passed along to President Truman at a White House conference on November 29th. Not all of these proposals will be granted since some of them shoot pretty high. The list includes: (1) more personnel for REA; (2) a new loan authority, amounting to $450,000,000; (3) freedom from generation restrictions and liberation of the basic REA Act; (4) authorization of REA loans to telephone systems. Scaling down these optimum proposals slightly, it would appear that REA will get funds for the coming year at least equal to the current year's $300,000,000 loan authorization, and REA is also likely to obtain its so-called "freedom from restrictions," especially in the matter of building generators. Whether Congress will finally consider the perennial Hill Bill to authorize loans for rural telephone systems should depend pretty much on whether President Truman asks for it. If he asks for the same, REA will probably get that authority too.

8. *New power projects.* Another spirited drive to put over the St. Lawrence seaway is expected in the 81st Congress. The Republicans from the Great Lakes states as well as Democrats will add steam to this drive. The heretofore united front of Great Lakes shippers and steel companies in opposition to the seaway seems to be crumbling. The reason for this is the rapid depletion of the ore deposits in the Mesabi range of Minnesota, and the promising prospects of the newly found deposits in Labrador. But the stalled application of the state of New York for a separate joint development of hydro power on the St. Lawrence in conjunction with the Providence of Ontario still clouds the picture slightly. There are those in Congress who would follow President

¶ "NEEDLESS *to say the social planners have many friends in the new Congress. The economy bloc (that long-suffering bipartisan band of conservatives who have vainly tried to hold on to the purse strings year in and year out) has been decimated by the recent elections. The few survivors come from retreats below the Mason and Dixon line. But by virtue of seniority they hold some choice committee seats in both houses."*

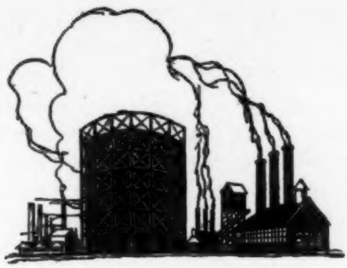
Truman's lead in having the Federal government do both the seaway and power development. There may be some who are disposed to let New York and Ontario go ahead with the power since they seem willing to pay for it. The opposition has not yet shown its strength.

But the strong eastern seaport line-up in the Senate has heretofore been successful in holding off such St. Lawrence legislation. The best that can be said right now is that it will be a tighter fight than ever before.

The Missouri Valley Authority (sponsored by President Truman) will make its perennial appearance in the form of a bill by Senator Murray (Democrat, Montana). It will get some fresh support this year from some labor unions and the National Rural Electric Coöperative Association, as well as the CIO Farmers' Union. But the old-line departments—Army Engineers, Interior's Reclamation Bureau, and Agriculture's Soil Conservation Service—do not look with favor on any more of these regional authorities, à la TVA. Needless to say, if MVA cannot get through next year, neither could bills for authorities on the Columbia river or the Arkansas river. The chances right now seem less than even that MVA will make the grade.

9. *Federal power agencies.* Speaking of the established power agencies, however, the 81st Congress should provide a field day for all of them. Despite renewed open opposition from the electric power industry, the TVA appears likely to get authority to begin building its steam plant at New Johnsonville (denied by the 80th Congress), and the Reclamation Bureau will get some of the restrictions removed from its operations — notably building of transmission lines — imposed by the 80th Congress. President Truman is reported preparing to ask for a record appropriation of a half-billion dollars for Reclamation Bureau. Congress may not finally vote quite that much but it will certainly top anything voted for Reclamation Bureau in the fairly long history of that spending agency.

10. *The FPC.* Thanks to the strong Democratic control of the new Senate, Commissioner Buchanan should have little difficulty in winning confirmation of his interim appointment to the Federal Power Commission. This in turn will consolidate the control of FPC policies, spearheaded by Commissioner Olds and generally agreed to by Commissioner Draper. The Olds-Draper-Buchanan faction will continue its policy of strict regulation on the broadest possible scope for both electric power and natural gas companies subject to its jurisdiction. The Smith-Wimberly minority, especially in natural gas cases, will continue writing minority opinions. Commissioner Olds, whose present term expires next June, will probably be entitled to another appointment if he wants one, in view of his early and stout support of President Truman's policies, particularly in the public power field.



What's Ahead for Gas Expansion Financing

For the first time in published periodical text, there are here presented the views of the distinguished chairman of the Securities and Exchange Commission on what's ahead for the natural gas industry's plans for financing its huge program of expansion.

By EDMOND M. HANRAHAN

CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION*

As everyone knows, the natural gas industry is engaged in an expansion program of epic proportions. The construction of the great transmission lines is in the most romantic tradition of American enterprise. The scale of activity involved, the engineering triumphs achieved in flinging great lines of 20- to 30-inch steel pipe thousands of miles across the face of the nation, the harnessing of vast unused natural resources for the benefit of large numbers of people, and the great rewards that come from success in such ventures are the stuff of the American dream.

There is a dramatic appeal here that stirs the emotions. To my mind this dramatic appeal has been as important in the successful financing and construction of such projects as Texas Eastern, Tennessee Gas, and the other great lines as has the lure of profit. It is significant that in no other industry have so many great new enterprises been projected and financed.

The capital expenditures of the natural gas industry have increased at a phenomenal rate, a rate far exceeding that of business generally. Between 1939 and 1948, the dollar volume of all private domestic investment increased a little more than fourfold; in the electric utility industry this increase was about fivefold; but in the natural gas industry capital expenditures increased over 12 times—from a little less than $50,000,000 in 1939 to $630,000,000 in 1948. Furthermore, proposals now under discussion in respon-

* For additional personal note, see "Pages with the Editors."

sible industry circles indicate that close to a billion dollars may be spent during each of the next few years.

THE rate of expansion in the gas industry appears to be due to the joint action of two powerful currents, one reinforcing the other. One is the extraordinary expansion in business activity since the end of World War II, and the second is the shift from other fuels to gas. In many places gas has become the cheapest as well as the most desirable fuel for many household and industrial uses. The present program, unlike that of 1928-1930, is based not on a theoretical estimate of a potential market waiting to be exploited, but on the hard reality of a pressing shortage. As is well known, the shortage of gas became so acute in many communities last winter that supplies to industrial consumers had to be drastically curtailed, and the installation of new space-heating units forbidden; moreover, appeals were made to householders to reduce home temperatures to 60 degrees or lower during the periods of peak consumption.

Because the expansion has been so heavily concentrated in natural gas, these comments will be restricted to the financial developments in that portion of the industry. A good part of the material presented here is drawn from the results of an uncollated study made by the staff of the Securities and Exchange Commission as to the manner in which a group of the principal natural gas companies have financed their expansion program since 1945. The group consists of 19 companies which had assets on December 31, 1945, of over $2 billion and which hold the bulk of the assets of the natural gas industry.

Though most natural gas companies accrued substantial sums through depreciation charges and retained a considerable portion of their profits, the industry, like many others, was unable to supply from internal sources all of the funds required for expansion. The group of companies we studied had available from such sources a little over $100,000,000 a year. While this was sufficient, after providing for debt retirement and working capital, to finance requirements during the late Thirties and early Forties, it became wholly inadequate when capital expenditures rose to their present level. New pipe-line companies, of course, had to finance entirely from outside sources.

IN the two and one-half years from December, 1945, to June, 1948, this group of companies made new capital expenditures totaling about $700,000,000, including about $250,000,000 by the two new transmission lines, Texas Eastern and Tennessee Gas. Of this amount $550,000,000 was obtained from the sale of new securities and the remainder from internal sources. Excluding the money raised by the two new companies, it appears that the other companies in our group raised about one-third of their construction requirements from internal sources and about two-thirds from the sale of new securities.

How was the new money raised? Our study shows that the bulk was obtained through the sale of senior securities. Of the $245,000,000 raised by the two new pipe-line companies, over 80 per cent was obtained through

the sale of bonds, about 4 per cent through the sale of preferred stock, and only 15 per cent from the sale of common stock. Of the $305,000,000 of new funds raised by the older companies, about 87 per cent was obtained from the sale of bonds, about 3 per cent through the sale of preferred stock, and 10 per cent from the sale of common stock. As can be seen from these figures, the sale of preferred stock played only a minor part in the financing program of the industry. While common equity has been materially increased by retained earnings, the sale of additional common stock has also played but a small part in raising new funds. Aside from the two new transmission lines, only three of the companies in our group have issued common stock.

A striking characteristic of the senior securities issued is their relatively short life; all have heavy sinking funds or serial maturities. The principal reason for these features appears to lie in the "wasting asset" character of our natural gas resources, but they have also aided materially in providing market appeal. Because of institutional preference for securities which "pay out" rapidly, banks and insurance companies have found natural gas debt issues very much to their liking. In fact, the industry has now achieved a credit status comparable to that of electric and telephone utilities.

Of the approximately $800,000,000 of new and refunding issues floated by the companies in our group since 1945, more than half were placed privately with institutional investors. The size of an issue has been no obstacle to direct placement, as shown by the fact that the two largest natural gas issues, each well over $100,000,000, were sold in this manner. Furthermore, we know that the bulk of the publicly offered issues was taken by these same investors. This is in sharp contrast to the conditions prevailing some ten years ago, when natural gas bonds aroused almost no institutional interest. In fact, institutions now dominate the market for natural gas debt to such an extent that they are virtually "locked in" their present positions; no other market at anything like going money rates appears to exist. Institutions have, therefore, great interest in the protective provisions written into these securities as well as in the general corporate health of the natural gas industry.

Let us look now at the effect of heavy debt financing upon the capital structures of the companies in our

¶ "The *capital expenditures of the natural gas industry have increased at a phenomenal rate, a rate far exceeding that of business generally. Between 1939 and 1948, the dollar volume of all private domestic investment increased a little more than fourfold; in the electric utility industry this increase was about fivefold; but in the natural gas industry capital expenditures increased over 12 times—from a little less than $50,000,000 in 1939 to $630,000,000 in 1948."*

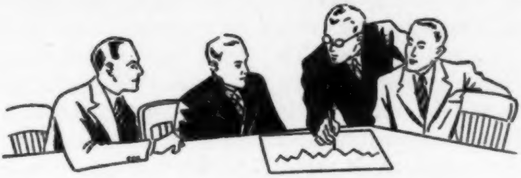
group. First, we note that the corporate structures of transmission companies vary materially from those which have both distribution and transmission facilities. Thus, the capital structure of one transmission line shows 80 per cent debt; another 71 per cent debt and 13 per cent preferred stock; and a third 69 per cent debt and 12 per cent preferred. Similarly, the other transmission companies in our group show debt ratios ranging from 50 to 65 per cent.

The companies with large investments in distributing facilities show smaller debt ratios. Thus, five of the companies in this group, including the two largest, have about 50 per cent of their capital in debt; one has 38 per cent, one 28 per cent, and the remaining three show about 15 per cent debt.

High debt ratios for transmission companies have been defended on the ground that where such companies have firm contracts, both for the purchase of gas and for its sale to responsible distribution companies, they may safely undertake a higher initial proportion of debt. This argument has some appeal, but it has its limitations, too, and in some cases it has been carried too far. It may, in fact, be almost completely inapplicable to a transmission company whose costs of gas and costs of transmission, including depreciation on a high-cost line, are sufficiently great that other fuels may be able to compete successfully with it during periods of unfavorable business conditions. Some of the new pipe lines which are now being constructed or which are in contemplation may encounter such higher costs and, consequently, should finance their construction in a conservative manner.

TURNING again to our group of companies, it is to be noted that all which participated in the expansion program have shown increases in their debt ratios. For the group the total debt outstanding has doubled since 1945, although assets rose only about one-third. In every case reasons can, I am sure, be advanced to justify the issuance of debt. However, I am not betraying any secrets when I say that we at the Securities and Exchange Commission are disturbed by the fact that many utility corporations, electric as well as gas, and, indeed, many corporations in other lines of activity, have, since 1945, relied so heavily on debt financing to meet their expanding capital requirements.

Our concern is not due to any belief that, generally speaking, the capital structures of electric utility corporations or of natural gas companies are weak. Serious problems do not, of course, arise when a natural gas company increases its debt ratio from 0 to 15 per cent or from 13 to 29 per cent. Indeed, it is just for the purpose of enabling management to meet expansion requirements that high common stock equities are maintained. However, when ratios begin to go from 42 to 59 per cent, from 50 to 70 per cent, from 40 to 65 per cent, or from 30 to 60 per cent, there is cause for uneasiness. It then appears that management is again looking backwards to the days of high leverage and that trading on the equity once again has allure. Should this trend continue, the industry will face the inevitable shakedown that follows prosperity with its capital structures heavily loaded with debt and with a high burden of fixed charges. No one wants



Rate of Expansion

"*THE rate of expansion in the gas industry appears to be due to the joint action of two powerful currents, one reinforcing the other. One is the extraordinary expansion in business activity since the end of World War II, and the second is the shift from other fuels to gas. In many places gas has become the cheapest as well as the most desirable fuel for many household and industrial uses.*"

to see the gains achieved in the last decade wiped out and utility capital structures put back to where they were in the Thirties, with all the attendant dangers. Already, many companies have assumed a heavy burden of fixed charges and debt retirement. Conservatism in dividend and depreciation policies will be required of these companies during the coming years, even if the anticipated high level of revenues and profits is realized.

THE reason most commonly advanced for the failure to sell common stock in recent years is that the market has been bad and the flotation of common stocks "too expensive" to be justified. This rationalization does not appear to me to be particularly strong in the case of natural gas companies. For many years natural gas equities have sold at high ratios to earnings. New offerings have been quickly absorbed and have soon sold at substantial premiums over the offering price. Shortages of materials and equipment have at times delayed construction projects, but adequate funds — both equity and debt — have been readily available.

I do not believe that the principal reason for such heavy reliance on debt financing is that management took the easiest way out and loaded up with as much cheap money as could be gotten regardless of the consequences. I am more inclined to believe that the reason why they did so lies deeper and flowed from certain assumptions as to the future of our economy. It is my belief that the reason lies in the theory widely held towards the end of World War II that war prosperity was sure to be followed by postwar depression. The unexpected need for funds, therefore, was looked upon as something limited and temporary in character, something that would be over when the projects then being undertaken were completed. The same attitude was prevalent in the electric utility industry where the size of the postwar expansion program dawned only gradually

upon the industry with the result that plans had to be continuously revised upwards. Indeed, what appears to have concerned management was whether demand, following the expected post-war letdown, would be sufficient to keep the new facilities operating at a reasonable ratio to capacity. It therefore appeared undesirable to take in new partners. On these assumptions, it was natural to conclude that debt financing at attractive rates was the appropriate solution to the immediate problem. Cheap money for a short-term boom seems to have been the idea. The heavy sinking-fund payments and the large serial retirements undertaken could, it was felt, easily be met from the depreciation charges and from the profits that were sure to accrue as a result of the expansion. Time, it was believed, would cure the capital structures and reduce debts to a point where the ratios looked better.

With the benefit of hindsight we can now see that in 1944 and 1945 we were blindly waiting for history to repeat itself. We were waiting for the problems that faced us after the first World War to reappear and this time we were determined to be prepared for them. Had we had the wisdom we would have seen that the problems facing us were not those of depression, deflation, and unemployment, but those of satisfying the huge volume of demand accumulated during the war years—a volume of demand so great that it has taxed our war-expanded capacity to the hilt for more than two years and that still appears to be far from satisfied.

We would have seen:

That the American people had accumulated huge liquid savings, were enjoying a high level of income, and were determined to translate those funds into higher standards of living.

That millions of young veterans, newly released from the armed services, were determined to set up new homes and rear families.

That the devastated areas of the world would have to be restored and that in one way or another funds to aid in such restoration would be provided.

That business had the desire and the funds with which to expand capacity, modernize plants, and put upon the market the new products developed during the war.

In short, most of us discounted too heavily the fact that consumers, farmers, businessmen, and state and local governments were in the best financial condition in our history, that our people had the determination and the wherewithal to live a better life.

The effect of the continued high level of business activity has been that the demand for gas, instead of leveling or falling off as was expected, has continued to increase, taxing capacity to the full. Thus new and ever larger facilities have had to be planned and constructed. Capacities of existing pipe lines have had to be increased, additional and larger compressor stations have had to be built, new reserves of natural gas have had to be developed, new storage capacity has had to be constructed, and new distribution facilities provided. The result has been that instead of being able to sit back, collect revenues, and pay off old debt, an ever greater stream of new money has had to be obtained to pay for the new facilities.

WHILE I have stressed the importance of maintaining a strong capital structure when times are good and capital expenditures large, I must also point out that a good capital structure is vital when times are bad and revenues and profits fall. As we have all learned, depressions are not quiet periods when one can sit back and clean up the odds and ends not taken care of during the busy days of prosperity. Depression, we have learned, can be so severe that the necessity of meeting daily operating expenses becomes a troublesome burden. Indeed, during the Thirties we found that a capital structure just could not be too strong.

Ours is a vitally dynamic economy, continually undergoing vast changes, severe price fluctuations, commodity substitutions, and great geographic shifts in manufacturing and distributing activities. The unexpected is always happening. It is the better part of wisdom to be prepared for it. Yet I do not wish to end these comments on a carping note.

The natural gas industry has shown the courage to undertake tremendous tasks and the ingenuity with which to overcome formidable obstacles. I am confident that its financial problems will be met in the same aggressive manner and with eminent good sense.

Advice to Employees

"HAVE *you ever considered the company you work with is just as important to you as it is to its president? If you don't feel it is, you should attempt to improve your relationship or get out.*

"You know it is a funny thing, but the worker who is just working from one pay check to the next is usually the one that causes trouble with his work and his neighbor.

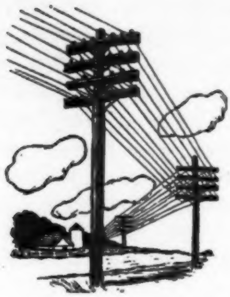
"Inefficiency cannot be covered up, whether you are floor sweeper or company president.

"Do you realize your job is more secure than your plant manager's? It is much easier to go to the top than stay there. The average plant manager works twelve to fourteen hours a day, and lies awake most of the night worrying. You work six or eight hours and you are done. He is never done.

"You feel you have pressure; but you have never known the pressure that stockholders can and do bring. You have a union to back you but management has no one. 'Make a success or you are fired' is always over the head of management.

"You are responsible for the success of your job, management's job, and the company's success. You, and you alone, are responsible for the continuance of steady employment. There is only one answer—labor and management must be closer—the true problems can be ironed out. You both have the same thing in common—security."

—EDITORIAL STATEMENT,
The Union.



Future Prospects in the Electric And Telephone Field

Here is a thought-provoking "outlook article," covering electric and telephone financial prospects in the light of expansion programs. Its author is also distinguished by a rich background of experience.

By P. P. STATHAS*

THE dynamic growth and excellent performance of the electric utility industry during the past several years is well known, but a review of its significant trends can best be shown in tabular form in order to grasp the over-all picture. For simplicity, the major items may be compared in terms of index numbers as follows (see page 22, Table I), using the year 1940 as 100. Incidentally, most of the figures cover the class A and B privately owned electric companies which constitute the bulk of the industry.

As far as operating revenues are concerned, the electric industry has shown a dynamic growth of almost 54 per cent between 1940 and 1947, and this growth is continuing at a good pace in 1948. To the twelve months ended June 30, 1948, the revenue growth showed an increase of almost 63 per cent since 1940. Operation and maintenance expenses, however, increased at a somewhat more rapid rate, and the increase between 1940 and the twelve months ended June 30, 1948, amounted to almost 113 per cent. In spite of this, the net operating income, before taxes and depreciation, showed an increase of 26.4 per cent, which is deemed a satisfactory showing, particularly in the light of the inflationary trends which have resulted in substantial increases in the cost of doing business. Between 1940 and the twelve months ended June 30, 1948, depreciation charges and taxes have gone up substantially, as would be expected,

*For personal note, see "Pages with the Editors."

and the increases amounted to almost 34 per cent and 67 per cent, respectively, with the result that gross income available for fixed charges and dividend payments remained stationary, or only .2 per cent above the 1940 level.

As is well known, however, the electric industry has had the benefit of refunding its debt at considerably lower interest rates and, as a result, its income deductions between 1940 and the latest 12-month period showed a decline of 27.2 per cent. Consequently, the net income for the twelve months ended June 30, 1948, was about 16½ per cent greater than in 1940. Similar refundings occurred in the preferred stock issues and, in consequence, the annual preferred dividend requirements of the industry are now about 22 per cent below the 1940 level.

As a result of these refunding operations, the balance of net income available for the common stocks of the electric industry showed an increase of 29½ per cent between 1940 and 1947, and similarly dividend payments on the commons showed a corresponding increase of 22.8 per cent. Thus, earningswise, the common stock position received a substantial benefit and the principal contributors to this have been the senior security holders, by way of the much lower yields which they now obtain on the senior securities held. Of course, the common stockholders have made some contribution by way of retained earnings which have been reinvested in the properties. Others sharing in the growth benefits of the electric industry during the period under review were the ratepayers, labor, and the various governmental agencies through increased tax collections.

Considering the substantial increase in the cost of doing business which was occasioned during this inflationary period, the electric industry has given a good account of itself and has displayed excellent resiliency in its fundamentally sound position with respect to increment costs as compared with incremental revenues obtained under the existing rate schedules. It should be noted that labor rates have gone up 60 per cent to 70 per cent since 1940. Coal prices have gone up about 70 per cent and fuel oil prices about 150 per cent. This was also a period of rate reductions and the rate schedules of the industry were reduced about 10 per cent during the past ten years. As a result of these rate reductions, plus the effect of the increased consumption billed at the lower steps of the rate schedules, the average price per kilowatt hour sold to all classes of service showed a drop from 2.06 cents for 1940 to 1.77 cents for 1947. This decline of 14.1 per cent in the over-all average price for electric service is astonishing when examined in conjunction with the fact that the cost of living index during the same period showed an increase of 70 per cent and the general price level other than utility service has gone up tremendously. You can well imagine what would have happened even to the strongest industrial concern if it were selling its products today at prices 14 per cent below the prewar level.

Currently, the electric industry, while still enjoying satisfactory operating revenue increases, is running a little behind from the stand-

point of net operating income in comparison with the corresponding 1947 period, as is shown in Table II. (See page 24.)

It should be noted, however, that the variation for individual companies is wide. For example, companies in the Southwest have the advantage of natural gas for boiler fuel, the price of which has remained practically stationary under long-term contracts. Such companies have not had any increase in fuel prices and the present natural gas contracts still protect them for some years to come, whereas other companies using coal or oil under their boilers have had to absorb large increases in the price of such fuels, as previously mentioned. Thus, companies in the southwest part of the country are currently enjoying increases in net income running between 7 per cent and as high as 38 per cent. On the other hand, companies using coal and oil for electric generation where prices have gone up tremendously, and particularly metropolitan-type companies so situated, which, in addition, had to absorb substantially higher wage increases, are showing current declines in net income in excess of 14 per cent. Some of the companies that depend on hydro generation to a substantial extent have been hampered by poor water conditions and their earnings have declined on that account.

On the whole, it appears that the metropolitan type of companies, and particularly those which do not have

TABLE I
GROWTH COMPARISON INDEX
(Year 1940 taken as 100)

	1946	*1947*	*12 Months Ended June 30, 1948*
Total Electric Operating Revenues	137.0	153.8	162.9
Total Electric Operation and Maintenance Expense	156.5	192.8	212.6
Electric Utility Operating Income (before Depreciation and Taxes)	122.4	125.1	126.4
Depreciation	123.8	129.6	133.8
Taxes	157.5	163.9	166.8
Gross Income (All Departments)	102.1	101.1	100.2
Income Deductions	77.9	73.8	72.8
Net Income	116.4	117.3	116.4
Preferred Dividends	85.2	77.9	
Balance for Common	125.0	129.5	
Common Dividends	108.9	122.8	
Investment in Utility Plant (All Departments):			
Gross Book Value	103.8	111.3	
Net Book Value	93.0	99.7	
Net Working Capital	167.9	135.3	
*Number of Ultimate Customers	119.7	127.3	131.0
*Generating Capacity	126.0	130.8	
*Annual Capacity Factor	124.6	137.7	
*Total Kilowatt-hour Sales to Ultimate Consumers	160.8	183.4	192.9

*—Index figures are for all electric utilities, including publicly owned, contributing to the public power supply.

indiv stocks

the benefit of cheap natural gas for fuel, are not currently doing as well earningswise as the outlying or rural type of companies and those having the benefit of natural gas for fuel. Naturally, so long as the present inflationary trends continue, selectivity in the companies, and particularly from the common stock investment standpoint, is to be expected.

As previously noted, the electric industry, as a whole, at the present costs of doing business, is showing a slight decline in its net earnings. The industry, on the other hand, is confronted with substantial capital expenditures for additions to its plant in order to meet the unprecedented demand for electric service. The question may well be raised now as to whether or not the revenue expansion will be sufficient to provide a proper return on the additional investment required. Therefore, it is important at this juncture to examine the changes which have taken place in the distribution of the electric revenue dollar, as shown in Table III, page 26.

Should revenues drop, depreciation would still have to stay at the same annual dollar amount if the wear and tear, obsolescence, and inadequacy of the property are to be provided for. For many years we have been preaching that depreciation is a function of *property* and not of revenue in examining its adequacy in connection with indenture provisions. If the usual indenture formula, which is geared to a percentage of revenue basis, does not freeze an adequate amount of depreciation in relationship to the investment in the type of property owned, then the mortgage position would tend to deteriorate over the life of the bond issue, other factors being equal.

Technological developments have tended to offset the industry's rise in operating costs during this inflationary era, and standardization of generating equipment and the use of larger generating units have tended to keep the unit investment costs down. Improved materials and designs have also increased the availability of the equipment and this, in turn, has reduced the reserve capacity needed and the corresponding investment. Years ago engineers were figuring on generating capacity reserves on the order of 25 per cent, whereas now, when the industry catches up with the demand, only about 10 per cent to 15 per cent reserve capacity will be needed. Interconnections of neighboring systems and pooling of reserves through that medium also have been an important factor. Outdoor construction, where climatic conditions permit, will save considerable investment in the generating and other equipment.

reserve capacity

On the technological development side, the gas turbine for power generation can well become a beneficial factor, particularly in the rural type of companies. High-voltage direct current transmission is another development which can be looked to for further transmission economies in the future. According to best informed opinion, the application of atomic energy for power generation on a commercial scale is still quite a few years away as far as justification by cold-blooded economies is concerned. When atomic energy is developed for commercial power generation many years from now, it is likely to be of supple-

TABLE II
PER CENT INCREASE—1948 OVER 1947

Month	*Total Electric Operating Revenues*	*Total Electric Oper. Exp. Depr. and Taxes*	*Net Electric Operating Income*
January	12.2%	17.3%	4.5%*
February	12.8	17.4	1.9*
March	14.0	18.2	1.3*
April	11.6	14.5	1.1
May	10.7	13.8	0.4*
June	12.6	17.8	6.6*
July	14.1	15.9	5.8
7 Months ended July 31st	12.6	16.5	1.7*
12 Months ended July 31st	12.7	16.3	0.4*

*—Decrease.

mental nature to existing facilities by way of large installations located in strategic places at a remote distance from the load centers, and such development is not likely to result in much, if any, obsolescence on the existing power plants during their useful life. It is of interest to note also that the fuel component of the over-all price paid, say, by the average residential customer, represents only about 12 per cent of such average price per kilowatt hour even at the present high coal prices. Therefore, even if the heat from atomic energy were to be obtained at no cost whatever, and also if we were to disregard the higher fixed charges entailed in an atomic power plant as compared with a conventional steam generating station, the consequent reduction in the price paid for electric service would be relatively inconsequential.

Fortunately, the electric industry is blessed with a fundamentally favorable cost curve in relationship to its ability to render adequate service at reasonable rates. Such rate adjustments as are required need not be large. For example, the construction budget of the electric industry in 1948 was estimated at $1.8 billion. To provide a 6 per cent return on this additional investment, with other factors remaining the same, the industry would need to adjust its over-all rates so as to produce only an additional net of $108,000,000. This, in terms of the present

annual gross operating revenue of the industry, which is a little less than $4 billion, would require an over-all rate increase of less than 4½ per cent. Obviously, such a rate increase is insignificant in relationship to the corresponding increase of more than 70 per cent which has occurred in the general cost of living.

WHILE many operating companies do not need urgent rate relief at the present time, those that have been earning a subnormal rate of return have been successful in obtaining rate increases from regulatory authorities. This gives evidence that regulation is a 2-way street, and regulatory commissions, except possibly in very few cases, will undoubtedly coöperate with the industry to keep it on a sound basis, thereby enabling it to continue to finance and provide the facilities necessary to furnish the required service. It must be remembered, however, that a sizable segment of the electric industry still does not need any increase in the rates. In fact, generally speaking, the three types of companies which appear to require some rate relief, under existing conditions, may be classified as follows: (1) those with extremely thin customer densities and rather large investment in relation to revenue; (2) those where subnormal water conditions on hydro plants have necessitated the production or purchase of huge amounts of high-cost power or its generation in inefficient fuel-burning stations; and (3) those companies where commission regulation in the past has been so strict as to limit the rate of return to a minimum, leaving little or no room for adverse fluctuations.

It may be well to examine at this point the effect of a possible economic recession on the earnings of the electric industry. In view of the fact that it takes considerable time to complete new power plant capacity, a large part of the expenditures of the utilities during the past year or more is still tied up in uncompleted power plants. In other words, the improved efficiency of new generating equipment has not yet been reflected in the industry's net operating income, and the completion of this new capacity should help improve the production costs of the utilities involved, even at the present high coal prices.

? recession

IN the event of a recession and a concomitant drop in industrial power sales, this efficient new plant will relieve the utilities from using their inefficient capacity represented by old plants, which are now in operation in order to meet present demand. The increment production costs on these old power plants, under existing conditions, leave very little profit and, in some cases, produce even a loss, in relationship to the prices charged to industrial customers at the low steps of the rate schedule. Thus, any decline in industrial load would have a negligible effect on the net earnings of the industry and, in fact, in a number of cases, a drop in industrial load could even result in an increase in the net operating income as compared with present conditions. The residential and commercial classes of business are relatively stable and should not be affected much, if any, by an economic recession. When the situation is examined from this fundamental standpoint, it is reasonable to conclude that

the net earnings of the electric utility industry should remain relatively stable in the event of an economic recession.

The gross book value of the total property and plant of the class A and B electric utilities, as a whole, showed an increase of 11.3 per cent between 1940 and 1947, while the corresponding net book value, after reflecting accumulated depreciation reserves, remained about the same. These overall figures, however, reflect the elimination of write-ups, as well as disposal of nonelectric utility properties made under the requirements of the Holding Company Act during the period under review. The gross electric plant account of this group of companies which, as previously noted, represents the bulk of the industry, showed an increase of some $3,164,000,000, or 30.3 per cent, between the end of 1940 and the end of 1947. This, of course, represents the additions made to the plant during the period in order to meet the unprecedented demand for electric service.

ELECTRIC utility construction costs are now about 60 per cent higher than the 1940 level, and the question can well be raised as to whether this has not injected a substantial amount of high-cost property into the industry's plant account. Our analysis shows that had all the 1940-1947 gross additions been made at the 1940 construction level, the utilities would have saved an investment of some $312,-

TABLE III

CLASS A AND CLASS B PRIVATELY OWNED ELECTRIC UTILITIES PER CENT DISTRIBUTION OF ELECTRIC REVENUE DOLLAR

	12 Months Ended	*12 Months Ended December 31*		
	6/30/48	*1947*	*1946*	*1940*
Operating Expenses:				
Salaries and Wages	19.6%	19.7%	18.9%	17.3%
Fuel	17.7	16.0	12.7	8.9
Maintenance and Other Oper. Exp.	17.7	17.1	16.6	16.0
Total, Excel. Depr. and Taxes	55.0	52.8	48.2	42.2
Depreciation	8.8	9.0	9.6	10.7
Taxes	16.9	17.6	19.0	16.5
Total Operating Expenses	80.7	79.4	76.8	69.4
Other Income, Incl. Inc. of Other Departments	3.0*	3.3*	3.8*	5.7*
Income Deductions	6.0	6.5	7.7	13.5
Preferred Dividends	2.5	2.6	3.2	5.1
Common Dividends	9.9	10.8	10.7	13.5
Bal. Transferred to Surplus	3.9	4.0	5.4	4.2
Total	100.0	100.0	100.0	100.0
Per Cent of Operating Revenues:				
Gross Inc. bef. Fed. Taxes on Inc.	29.6	31.9	36.2	31.5
Net Income	16.3	17.4	19.3	22.8
Balance for Common	13.8	14.8	16.1	17.7

*—Red Figure.

917,000. This excess, however, when related to the electric plant account of $6,441,176,000 which this group of 50 companies had in service at the end of 1947 is equivalent to only 4.9 per cent of the latter figure. In other words, the excess costs due to the high construction costs faced during the past few years are relatively insignificant and the bulk of the present plant account of the electric industry is still represented by property built at considerably lower price levels.

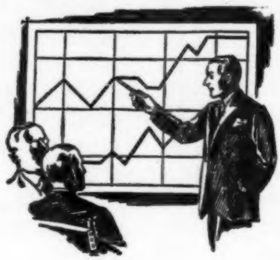
It is, nevertheless, unfortunate that this expansion program comes at a period of high construction costs. Of course, under the present concept of regulation which gives almost sole weight to depreciated original cost in most states, the expansion of the facilities at the present high price level will not be injurious as far as the industry is concerned. On the other hand, it would have been more economically sound if such expansion occurred at a lower price level as there is always the possibility of regulatory bodies switching their policy toward more recognition of depreciated reproduction cost in the event that this measurement of property value drops considerably below original cost at some future time. In any event, the fortunate thing is the fact that, as shown by our aforementioned analysis, only about 15 per cent of the aggregate property and plant account of the industry will represent high-cost property, even at the end of 1951.

THE current expansion of the electric industry at the high construction cost level seems to have created a fear in the minds of some people, particularly with reference to depreciating this investment. As is well known, a number of industrial concerns have increased their depreciation accruals so as to amortize the currently high construction costs very rapidly. Some financial analysts have taken a page from the book of such industrial concerns and are now advocating that the utilities should follow the same procedure. In our opinion, this stand is fallacious for the following reasons:

accel. deprec.

In the first place, a utility property, on a composite basis, has a long life (in the neighborhood of forty years) even after allowing for obsolescence and other elements. Furthermore, under the present classification of accounts prescribed for utilities by regulatory bodies, the annual depreciation accruals of the electric industry are taken on a percentage of property basis which gives recognition to estimated life and enables the utility to recover the cost over the life of the property. It would seem that even if the utilities were to attempt to amortize the high construction cost investment over a short period of years, the excess depreciation would not be allowed as an element of cost in the current regulation of rates or for income tax purposes. The significant factor is that the utility property is a long-life situation and the amortization of the investment in it over its life, in our opinion, still provides good protection for the investor.

The construction expenditures of the electric utility industry in 1947 amounted to about $1,592,000,000, and this includes the relatively small expenditures made by municipal plants and rural coöperatives, but not government power projects. According to present estimates, the private utilities



Labor Rates

". . . labor rates have gone up 60 per cent to 70 per cent since 1940. Coal prices have gone up about 70 per cent and fuel oil prices about 150 per cent. This was also a period of rate reductions and the rate schedules of the industry were reduced about 10 per cent during the past ten years. As a result of these rate reductions, plus the effect of the increased consumption billed at the lower steps of the rate schedules, the average price per kilowatt hour sold to all classes of service showed a drop from 2.06 cents for 1940 to 1.77 cents for 1947."

place their aggregate construction expenditures at about $1.8 billion for 1948, plus another $4.2 billion for the subsequent 3-year period 1949-1951. The 1948-1951 construction program includes about 15,000,000 kilowatts of additional generating capacity and this should enable the industry to catch up with its reserve capacity requirements by the end of 1951, even if the demand for service continues at the present high rate. Of course, should there be a recession, the program might have to be modified accordingly.

THIS large construction program will, of course, pose problems for its financing and it is obvious that the utilities must resort to new capital markets to a large extent. It is of interest to note in that connection that in the first six months of 1948 the par value of the new money securities sold by the private electric utilities totaled some $622,621,000, of which $492,775,000, or 74.4 per cent, represented debt securities, $94,650,000, or 14.3 per cent, preferred stock, and $75,188,000, or 11.3 per cent, common stock. We estimate that for the 1948-1951 period the depreciation and amortization cash available to the utilities for construction purposes will amount to at least $1.6 billion, and retained earnings over and above common dividend payments, including such payments on additional common stock to be issued, will amount to another $500,000,000, making a total of $2.1 billion, as a minimum. This would leave an aggregate balance of $3.9 billion to be raised from outside sources

and if we were to assume that the industry will follow the so-called ideal capitalization ratios of 50 per cent debt, 25 per cent preferred, and 25 per cent common toward raising this additional new money, this will mean about $2.2 billion of additional bonds and other debt, about $1.1 billion of preferred stock, and about $600,000,000 of common stock.

It is of interest to note that in spite of the sizable property additions made between 1940 and 1947, the capitalization ratios, and particularly the position of the senior securities, have not been disturbed. For example, in 1940 the total long-term debt was equivalent to 47.3 per cent of the total capital structure, with preferred stock accounting for 14.2 per cent and the common stock equity representing 38.5 per cent. The corresponding figures at the end of 1947 were 46.8 per cent long-term debt, 15 per cent preferred stock, and 38.2 per cent common stock and surplus.

According to our estimates, the capital structure of the electric utility industry at the end of 1951, after financing the aforementioned $6 billion construction program for 1948-1951 on the above basis, would consist of about 47.7 per cent long-term debt, 17.4 per cent preferred stock, and 34.9 per cent common stock and surplus. If the aforementioned method of financing is followed, it would seem to us that no serious dilution will result as far as the senior securities are concerned, and there would still be a substantial amount of common equity in the picture.

INCIDENTALLY, the so-called ideal capitalization ratios of 50 per cent debt, 25 per cent preferred, and 25 per cent common stock and surplus, are not necessarily the proper solution to the problem. The characteristics of the territory served by a given utility are important factors, particularly with respect to the type of load served, and the influence upon such load of the ups and downs of the general business cycle must be taken into account. A company serving a stable territory could well stand a higher debt than one subject to wide fluctuations. Companies with earnings insuring higher coverages for debt service can probably justify a higher debt to start with. An initially higher debt ratio, coupled, however, with a good cash sinking fund, may be a better solution for all concerned than the ideal capitalization ratios. A higher proportion of interest-bearing securities would result in tax savings at the present high income tax rates and these savings, together with some additional retained earnings, can pay off the debt fast and ultimately work out to better advantage than having a lower debt ratio and a higher proportion of preferred stock, particularly at a time when preferred stocks are hard to sell.

It would seem that regulatory commissions must take a more flexible and liberal attitude on capitalization ratios generally, but, on the other hand, investors should guard against dilution of their senior position. The best safeguard, of course, available to the investors in senior securities is adequate cash sinking funds and other protective provisions in the indentures whereby the initial position of the senior issue will improve as time goes on and investors will get some of their money back before maturity. From

the standpoint of institutional investors, the same safeguards might well be taken with respect to preferreds.

Demand

LET us now examine the future growth potentialities of the electric industry. In 1947 the industry connected over 2,000,000 new customers, an all-time annual record, and broke the previous record of 1,800,000 customers added in 1946. Customer growth is still continuing at a good pace and, in a number of areas, the only thing that stands in the way of even greater growth is the lack of capacity. The customer growth is particularly good in the residential classification which has a more profitable revenue spread. Farm customers have also shown a good increase and the same holds true with respect to small commercial consumers.

Between 1940 and June 30, 1948, the residential customer growth amounted to 30.4 per cent, while the corresponding growth in annual kilowatt-hour sales amounted to 104.3 per cent and annual revenue showed a corresponding growth of 61.1 per cent. The average consumption per residential customer went up 58.1 per cent from 952 kilowatt hours in 1940 to 1,505 kilowatt hours for the latest 12-month period. Average revenue per kilowatt hour sold went down from 3.84 cents in 1940 to 3.03 cents for the twelve months ended June 30, 1948, but in spite of this decrease in average revenue the average annual bill for the latest 12-month period was $45.60 or about $9 more than the average of $36.56 obtained in 1940.

Appliance sales, which were suspended during the war, reached record levels in 1947 and are still continuing at a good pace. For example, in 1947, the electric industry as a whole connected 1,200,000 ranges and 1,110,000 water heaters to its lines and this was the first year in the industry's history in which such sales exceeded the 1,000,000 mark. Other appliances connected in 1947 included 3,573,000 electric washers, 3,400,000 refrigerators, 3,704,000 vacuum cleaners, 17,000,000 radios, 450,000 home freezers, and 163,000 television sets. The home freezers and television sets are just beginning to be sold in large volume. Most of the appliance sales were made to new customers and the residential classification also affords a large replacement market for the future. The high cost of household help will undoubtedly continue to stimulate the use of more labor-saving electric appliances in the home.

ANOTHER new potential load of great consequence in the residential

"... companies in the Southwest have the advantage of natural gas for boiler fuel, the price of which has remained practically stationary under long-term contracts. Such companies have not had any increase in fuel prices and the present natural gas contracts still protect them for some years to come, whereas other companies using coal or oil under their boilers have had to absorb large increases in the price of such fuels ..."

electric service field is the heat pump, which is now being tested in experimental installations in various parts of the country. The load-building possibilities of the heat pump for winter heating and summer cooling are amazing as the average annual consumption per heat pump installation amounts to between 12,000 and 15,000 kilowatt hours. If we were to assume that the electric industry is ultimately successful in serving heat pump loads in only 5 per cent of the present homes, this would mean an increase of almost 45 per cent in the present residential annual kilowatt-hour sales of the industry as a whole, and a corresponding increase of about 25 per cent in annual domestic electric revenues.

In the industrial field, the longer-range prospects are for greater electrification of industry and increasing industrial electric power loads due to more mechanization which will be dictated by increasing wage rates. New processes which are now being or will be developed by essentially new industries or applications, such as the synthetic fuel program, the treatment of low-grade ores, and high-frequency heating, will add further to the electric power load on top of the increase which is expected through expansion, more modernization, and mechanization of existing manufacturing plants.

The Westinghouse Electric Corporation made a survey of the electrical industry and we recently had occasion to examine this survey in considerable detail. The conclusions arrived at in this survey give a good idea of the growth expected in the electric utility industry for the 10-year period 1948-1957. It shows that residential kilowatt-hour consumption will increase 100 per cent, farm consumption 140 per cent, small industrial and commercial consumption 50 per cent, and large industrial and commercial consumption 71 per cent with an average increase of 72 per cent in the kilowatt hours consumed by all classes of service, combined. The survey further indicates that this estimated growth will not unbalance the total kilowatt hours sold to various classes of service and, in fact, if the estimates actually materialize, the percentage of total kilowatt-hour sales to the large industrial and commercial classifications will be a little less than the percentage now accounted for by this class of service. The Westinghouse survey further concludes that in order to meet this estimated growth the electric industry as a whole, including the government power projects, would have to increase its kilowatt generating capacity by 80 per cent during this 10-year period.

PUBLIC power complications will continue to disturb the industry's outlook. Prior to the recent election, the trend seemed to be away from public ownership, as evidenced both by the results of municipal ownership elections and from the disposition of the 80th Congress toward bills involving appropriations for public power developments. The 81st Congress is generally expected to promote public power projects already established by the Federal government.

It also appears that, to date, the public and private utilities in the Pacific Northwest have been coöperating with each other and with the Bonneville Power Administration on a program designed to meet the power requirements of the entire region. A very

Decline in Net Earnings

". . . the electric industry, as a whole, at the present costs of doing business, is showing a slight decline in its net earnings. The industry, on the other hand, is confronted with substantial capital expenditures for additions to its plant in order to meet the unprecedented demand for electric service."

substantial amount of both capacity and energy has been made available to the private companies by Bonneville.

Government ownership could well continue to be a disturbing element marketwise on the securities of companies operating within the sphere of influence of existing government power projects. Additional contemplated projects such as the Missouri valley and the St. Lawrence developments might create further disturbances as time goes on. It is believed, however, that, generally speaking, the senior securities of all operating companies which might conceivably be threatened by public power developments are perfectly safe in the event of a sellout to public ownership. It is the common stockholders who should watch out in such instances.

The Telephone Industry

FUNDAMENTALLY, the position of the telephone industry is not as favorable as that of the electric and natural gas segments. Generally, as the number of subscribers within a given exchange area increases, the average investment per subscriber goes up, other factors being equal. Another fundamental difference arises from the fact that in the telephone industry the operating payroll now consumes about 60 cents of the gross revenue dollar, whereas the corresponding figures for the natural gas and electric utility industries are about 13 cents and 20 cents, respectively. Obviously, in a period of rising wage rates, investors look with more favor upon those industries which have a lower component of wage costs in terms of the revenue dollar.

The best long way out for the telephone industry is conversion to dial operation. Such conversion at today's construction prices, which have almost doubled in comparison with prewar levels, is not cheap. From our studies

of many individual systems, however, we find that dial conversion is more than amply justified even at the present high construction cost levels. The operating savings resulting thereby are sufficient to provide an annual return on the conversion investment of from 12 per cent to 18 per cent, after depreciation, but before income taxes. This means that dial conversion not only carries its own weight, but also helps to carry some of the financial load of the manual exchanges, when viewed from the over-all earnings standpoint of a given company. Dial conversion, in addition, improves the quality of service and justifies higher rates.

The telephone industry is still confronted with a tremendous expansion of its facilities in order to meet the demands for telephone service, and practically all individual companies have piled up large waiting lists of new subscribers. These cash requirements are on top of the amounts necessary for dial conversion. It is significant to observe that, in most cases, the companies involved have not been able to earn a reasonable rate of return on the construction expenditures made for the purpose of taking on additional subscribers without rate increases, whereas the new investment made for conversion to dial operation has been profitable, as previously noted. Therefore, in connection with the new money being raised by the telephone industry, the investors interested in its securities may well make it a point to find out how this money will be spent —if it will be used for dial conversions the additional investment will be much sounder from the investors' standpoint than if it is used merely for providing additional facilities for expanding manual service.

In spite of the vast expansion in gross revenues, the telephone industry has found it necessary to lead the parade of rate increases, and most regulatory commissions have been sympathetic in granting such rate increases, although not to the full extent asked by the companies. The rate increases required in the telephone industry are comparatively larger, percentagewise, than those required by the electric industry in order to bring the current earnings up to a reasonable rate of return.

Such increases[1] could become a boomerang if a period of economic depression subsequently took place. Many telephone disconnections might result. It may well be found that a substantial portion of the new subscribers now connected to the telephone systems represents marginal people, when viewed from a future general economic depression standpoint. Furthermore, a substantial portion of the revenue growth represents long-distance toll revenue which is subject to curtailment in the event of an economic depression.

These general observations on the

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[1]The AT&T reported early in December that $170,000,000 in rate increases had been granted since August, 1945 (when telephone rates began to move up), representing an increase of 14 per cent in the telephone subscriber's average bill, and that additional rate increase petitions by Bell system companies in the amount of $240,000,000 were pending (at that time) in 29 states. Even if all pending increases were fully granted, the AT&T release estimated that the increase in the subscriber's bill would amount to only 22 per cent. Such percentage increases compare well with the 70 per cent increase in the over-all cost of living, especially if the AT&T hope that the rate situation would thereafter become stabilized materializes.

telephone industry have been made for the purpose of bringing out some of the fundamental differences between it and the electric utilities, and they do not necessarily pertain to the position of any specific company. There are good investment opportunities in the telephone field and these should be examined in the light of the peculiarities presented by each individual company.

Utility Investments Generally

FOR policy reasons, life insurance companies limit their investments primarily to debt securities. Consequently, the main reservoir of capital for equity securities is the individual investor, but he has not been able to accumulate substantial savings for investment under existing conditions of high income taxes and the increased cost of living. Casualty and fire insurance companies, however, are again beginning to have available considerable cash for investment, both from internal sources, as well as from additional capital, and a portion of these funds is likely to be devoted to the purchase of utility commons where the yield is high, particularly in relationship to the stability and protection obtained. The generous yield at which utility equities are now available, together with the stability in their earnings, in our opinion, makes these equities also a good field for the investment of trust funds handled by the trust departments of banks throughout the country. Of course, selectivity as to various utility companies is a highly important factor.

Obviously, the raising of the additional funds by the utility industry with which to meet its contemplated expansion program presents a difficult problem, but it is believed that industry can raise the required capital at reasonable cost, particularly the electric and natural gas segments where their stability and integrity as an investment medium are so well established and where the fundamental economic factors elaborated upon in the earlier part of this discussion are generally favorable from the longer-term standpoint.

In addition to the usual orthodox senior securities, convertible debentures and convertible preferreds are likely to be issued in larger volume as time goes on. Such convertible issues have a definite place in the capital structure of the utility companies as a means of raising future common stock capital at a reasonable cost. These convertible issues offer some advantages to the investor in that he is not frozen into the situation permanently on a low yield basis. He can make a capital gain by converting and selling, if he does not wish to hold the common and earn a higher yield on his investment.

IT is very encouraging to note analytically that, even with the substantial additional sums to be raised, the capital structure of the electric utility industry will probably still remain in good balance and the position of the senior securities need not be diluted to any appreciable extent. The investors in the senior securities must be on guard with respect to individual issues, and strong indenture terms and preferred stock provisions are now more important than ever before. Sinking funds on debt securities and preferred stocks, as well, are likely to be resorted to more and more as time goes

on in order to induce substantial institutional buying of such issues.

The large amount of new money senior issues which will continue to come on the market for some time to come could well be offered at higher yields than those afforded on outstanding issues of comparable quality, if they are to be successfully distributed. When the fundamentally sound position of such issues is considered, this may be viewed as an opportunity by the institutional investor toward obtaining a higher yield on his investment. Until about two years ago, the advantage was with the issuer, and the investor was gradually squeezed as to yield. It appears that this trend has been reversed. Another factor to watch in that connection is the government policy in regard to interest rates on long-term government bonds.

One negative element is the fear in the minds of a number of investors that new money common stock issues which will be coming on the market to finance a part of the industry's construction requirements will cause indigestion, before they are completely absorbed on a permanent basis.

As evidence of this, it is of interest to observe that whenever a given company has announced the contemplated issuance of additional common stock, the market price on the already outstanding common has gone down frequently around 10 per cent. Of course, in such cases most holders can be protected by exercising their rights to subscribe to additional common, particularly in view of the probability that such rights are bound to be valuable under the circumstances. Furthermore, when issues are under such pressure, a buying opportunity is afforded either for additions or new purchases.

In our judgment, the generous yields now obtainable on utility commons of good quality already discount a substantial portion of the factors exerting pressure on the present market price. Evidence continues to indicate that dividend increases are likely to outnumber possible decreases, and it appears to us that, from the standpoint of investment primarily for income, selected electric utility commons still occupy a favorable long-term position and the yields afforded are still, in our judgment, relatively liberal.

"MANAGEMENT *can be built only through wise selection, careful training, and the assignment of functions—with the necessary delegation of authority to carry out such functions. The development of subordinates can be assisted by affording them continuing assumption and discharge of increasing responsibility.*

"Operations require so much time and attention that it is easy to neglect this important function. But it cannot be left to chance or accident, or emergency handling. The matter of replacement of leaders is too important. It requires a deliberate, formalized program and procedure."

—HINES H. BAKER,
Executive vice president, Humble Oil & Refining Company.

Public Utility Oddities

Along the lighter side, there are many news items about things which happen in the course of a day's work in the public utility business which bring a laugh to those who hear about them, if not to those who experience them. The author has made an amusing collection of such items.

By HAROLD HELFER*

Working on the Railroads?

The New York, New Haven & Hartford Railroad is trying to find the man who passed a 1917 ticket on one of its trains for a ride. It wants to give him a cake for being so thrifty in saving the ticket.

* * *

Remarking on a proposal to build a railway through New Hampshire in the 1830's, a newspaper declared editorially: "What can be more palpably absurd and ridiculous than the prospects held out of locomotives going twice as fast as stagecoaches?"

* * *

It is estimated there are 100,000 model-railroad hobbyists in this country, owning and operating enough trackage to reach from New York to San Antonio. Their total investment is about $10,000,000.

Train control may be made safer on the single-track railways of the West by radar waves that ride telephone lines up to 100 miles, recording breaks within a few feet. The radar with a small projection screen is plugged into the telephone switchboard and the waves' progress along the wire is projected on a screen. It is being tried around Eugene, Oregon.

* * *

You'd have to look far to find a smaller railroad line than the "Mutthead" of Boyne City, Michigan. Running twice a week between Boyne City and Boyne City Falls, a distance of 7.2 miles, it employs eight persons.

* * *

One hundred years from now Washington will be little more than an hour from Chicago by rail, in the opinion of R. L. Williams, president of the Chicago & North Western Railroad. He says atom trains will whiz along at 800 miles per hour.

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*Professional writer, Arlington, Virginia.

PUBLIC UTILITY ODDITIES

FOR seventeen years Mabel Smith, of Natick, Massachusetts, was nicknamed the "B&A" girl because she was born on a Boston & Albany railway coach. When its "adopted daughter" married, the railroad remembered her with an all-expense honeymoon trip to Niagara Falls and a set of china.

* * *

American railroads operate a "navy" consisting of some 2,000 units; they are largely ferries, tugboats, car floats, barges, and lighters used in harbor and ferry operations.

Nature's Beverage

VICTOR BARNETT, of Evansville, Indiana, thinks he has put some new life into kitchen water using. He has a patent pending on a water tap for the kitchen sink. The faucet is metal cast in the shape of an animal's head. Pull down the left ear, you get hot water. Yank the right, cold water.

* * *

Inflation has hit the cost of drinking water, Dale Maffit, Des Moines waterworks manager, admits. Once, he said, a nickel bought 2,667 8-ounce glasses of water. Now it costs 5 cents for only 2,000 glasses.

* * *

Sanitary conditions in this country are worse than they were a century ago—that's the opinion of Professor Abel Wolman, of Johns Hopkins University. He says that 6,000 communities lack waterworks, 9,000 sewer systems, and "more than 33,000,000 persons lack satisfactory sewage or excreta disposal facilities of even the simplest type."

The mystery of what caused the water of 65 families in a New York apartment house to become shut off was solved when a large eel spurted out of a fire hydrant.

Transit Topics

CHICAGO bus company officials have decided to skip No. 13 when the next group of vehicles is ready for public service. Of the 27 shiny new busses recently introduced to city streets, No. 13 was the first to meet with disaster. It struck an iron fence and dug up a garden.

* * *

The final half-dozen passengers paid their fare and were squeezed through the rear door of a crowded Fort Worth, Texas, bus when the driver yelled: "All right back there?"

"Just a minute," a feminine voice broke in. "Wait till I get my clothes on."

All eyes turned expectantly. Passengers saw an attractive young woman struggling with an oversized bundle of laundry.

* * *

E. E. Burton, Portland, Oregon, motorman, taking a critical look at his warm, perspiring trolley passengers, pulled to a stop and bought Eskimo pies for the whole bunch.

* * *

In Washington, D. C., this incident was reported:

A man, puffing away on a cigarette, boarded a trolley. The motorman growled, "Hey, put that out — don't you see the 'No Smoking' sign?"

"Sure," said the man, easily, "but I

also see the one by it that says 'Wear Stay-Rite Brassieres' and I don't pay any attention to any of these trolley signs."

* * *

The base pay of Garrett Nagle, Lynn, Massachusetts, bus driver, is $66 a week. But with the aid of overtime, he earned $6,273 in the past year—more than his employers. The three trustees of the Eastern Massachusetts Street Railway Company get $6,250 each per annum.

* * *

To break the monotony of his schedule, Ted Q. Browne, St. Louis trolley motorman, decided to give his passengers a "courtesy test." At the end of a day at it, he found he had greeted 1,082 passengers with a cheery "hello" and got only 31 replies. Of the 300 persons he saw running for the car and for whom he waited, only 26 bothered to thank him.

* * *

Beira, Portugese East Africa, busses carry signs that say: "Passengers are requested to destroy their tickets at the end of trip in order to avoid being resold by the conductor, as has happened before."

* * *

The annual auction of lost and unclaimed articles conducted by the New York Board of Transportation included 4,070 umbrellas, an artificial arm, a vacuum sweeper, a box filled with false teeth, 300 odd shoes.

Gas and Electric

THE British government is now willing to believe that there may be something in the wind. It's come about because of the coal shortage. Inventors who've dreamed for years of giant windmills as a source of energy now have the blessings of the authorities. They're being asked to pass their ideas along as a patriotic gesture.

* * *

The first written record of petroleum's discovery on this continent —it has come to light—occurred seven years after the Pilgrims landed in New England and mentions the Cuba Lake, New York, oil spring. A Franciscan missionary discovered and recorded the then mysterious "pool which could be set afire," as it was described by the Seneca Indians. He wrote that the Indians at first treated the sticky fluid with superstitious reverence. Later, they discovered its valuable medicinal properties and for many years it was found on the patented medicine shelves labeled "Seneca Oil."

* * *

A runaway kite with a string bearing a thread of tinsel disrupted service to 1,900 homes in a dozen communities of Schuylkill county, Pennsylvania. The kite fell across a 22,000-volt power light, burning out a transformer.

* * *

In Milwaukee, a court ruled that it is not a matter of politeness when a gas man asks for a kiss. The gas man admitted that on a routine gas call he had asked the lady for a kiss but said he had done so most politely. But the lady called her husband who dashed out of bed just as the gas man dashed out of the door. The court fined the gas man $150. He also lost his job.

PUBLIC UTILITY ODDITIES

L. L. Laing has a somewhat unusual problem—he has $1,300,000 to give away but can't find the people to give it to. It is Laing's job, as a Detroit official, to give away the money as a natural gas rebate. But he can't find 148,000 Detroiters who used natural gas between October, 1942, and September, 1945. They are entitled to an average rebate of $12 each.

Miscellaneous

EVERY day in the United States people indulge in 154,000,000 conversations over 37,350,000 telephones.

Well-fed cats make the best mousers, according to a British railway which keeps eight felines on its payroll.

Santiago, Chile, has a waiting list of 50,000 who want phones.

New York's subways and vehicular tunnels contain enough ceramic tile to pave a street more than 40 miles long.

Slot machines in a London subway station now sell transportation tickets and give change.

More than 75,000,000 persons in the U. S. obtain their drinking water through public water-supply systems.

Gambling in football pools is now estimated as the eleventh largest business in Britain, some firms employing 1,000 solicitors and as many clerks.

Each pound of uranium can produce 10,000,000 kilowatts of energy.

The United States is now using as much oil as the entire world ten years ago.

Water power in Canada is estimated to be about 18,000,000 horsepower, of which only less than 8 per cent has been developed.

Profits and the Employee

"To me the first responsibility of management to its employees is to operate a successful business—a business which makes a profit. I mean a regular, healthy profit, the kind that continues to pay wages and expand a business, thereby making new jobs. It is unfortunate that through the past several years a great many influential people have considered profits as something to be ashamed of and avoided. Never were people more mistaken and misled. Profits are the lifeblood of a business and of the continuing progress of the individuals in the business.

"There could be no business expansion, no industrial progress without profits. As for real benefits to employees, just try to find them in a firm which makes no profits. If the condition persists, the 'going' business becomes the 'gone' business with no jobs.

"Employees should realize that, along with profits, the continued financial strength of a company is a management responsibility to them. This is particularly important in this period of very high costs of finished products, and high level of employment."

—RICHARD R. DEUPREE,
President, Procter & Gamble Company.

Washington and the Utilities

Improvised Planning?

WHO remembers the day when the announcement of Soviet Russia's first 5-year plan was looked on in intellectual circles as being a model of long-range, long-headed economic planning? Today 5-year plans are mere piecemeal strip teasers compared with some of the stuff the high-domed gentry talk about around Washington when they refer in solemn tones to Our Future Heritage.

In the field of reclamation and power work in connection with river basin development, the Interior Department's 7-year plan, recently released by Secretary of Interior Krug, seems quite modest, if not more or less "dated" by the fast-moving developments in this field since President Truman's election gave all public project enthusiasts a green light to dream up their fondest dreams and put them on paper.

Early in December the Missouri River States Committee, meeting in Lincoln, Nebraska, heard of a 30-year soil conservation program for the Missouri river basin outlined by Governor Peterson of Nebraska, newly elected chairman of the committee. Origin of the plan seems to be the Department of Agriculture, whose representative, Gladwin Young, said a report on a comprehensive conservation program for the Missouri river basin calling for nearly $4 billion and extending over thirty years will soon be released.

This plan, which includes flood control and power development, as well as soil conservation and reclamation features, strongly appeals to most of the governors in the Missouri basin states as an alternative to the proposed Missouri Valley Authority program, expected to be launched early in the new session of Congress.

AS a matter of fact, the Soil Conservation Service seems to be spearheading the opposition to "authorities" these days. A spirited discussion on the refusal of the Tennessee Valley Authority to coöperate with the Soil Conservation Service was featured at a closed meeting of the National Planning Association, held in Washington, D. C., also early in December.

Not to be outdone on long-range blueprinting, the Army Engineers in mid-December began talking about a 50-year program that would cost $57 billion and, barring violent economic upheavals, might be completed around the year 2000. It places emphasis on multimillion-dollar hydro projects, chiefly in the Northwest. More than $24 billion ultimately would be spent on this phase alone. Another $12.3 billion would go for flood-control systems, such as are now operating along the Mississippi and Ohio river basins. Irrigation would be earmarked for $8.6 billion to reclaim 16,200,000 acres of western desert and 1,500,000 acres of potential rice lands in southeastern Texas, Louisiana, and Arkansas. Finally, $6.2 billion would be spent for navigation improvement. Other miscellaneous advantages would include pollution control, fish and wild-life preservation, and recreation area development. Work already done and under way, according to Lieutenant General R. A. Wheeler, amounts to 16 per cent of the long-range program.

Army seems to be sensitive to criticism from some quarters about its "big reservoir" program and points to the Norfork

dam on the White river in Arkansas as a refutation of such criticism.

Representative Rankin (Democrat, Mississippi) meanwhile is whooping it up for his perennial bill to establish eight new regional authorities, à la TVA. But administration planners expect that the principal drive in the direction of the "authority" idea will be made on the Missouri Valley Authority front, which has been endorsed and blessed several times by President Truman.

A STRONG MVA lobby is forming in Washington right now. Chairman of the regional committee is Benton Stong, who takes up full-time duties in Washington aided and abetted by the Public Affairs Institute, headed by Dewey Anderson. The latter is a close associate of Senator Murray (Democrat, Montana), author of MVA legislation in the last two sessions of Congress. The new MVA strategy calls for signatures from about a score of Senate supporters, to be listed as coauthors of the new bill. Hearings would then be held during the Missouri spring flood season. Supporters hope that this combination of dramatic setting and strong-armed tactics will enable the bill to by-pass the apathetic Senate Public Works Committee, headed by Senator Chavez (Democrat, New Mexico), which has previously pigeonholed such proposals, aided by lengthy hearings.

The more favored committee is the Senate Interior and Insular Affairs Committee, headed by Senator O'Mahoney (Democrat, Wyoming), who is very sympathetic to his Montana colleague's bill and who will probably appear among the list of "coauthors."

The business-managed electric power industry, however, is not giving up the fight to block what it regards as unfair competition and discrimination by the Federal government and its power business operations. P. L. Smith, speaking for the National Association of Electric Companies, said his organization will oppose any government projects "competing with or discriminating against private companies." He said the private companies will install generating units as fast as manufacturers can build them and that no government agency could install new capacity any faster. Finally, Smith promised that his organization would again oppose a multimillion-dollar steam generating plant in New Johnsonville, Tennessee, to supplement the TVA hydroelectric system. Senator-elect Kefauver (Democrat, Tennessee) will lead the fight for these funds, which were blocked by the 80th Congress.

ONE private company statement or, more accurately, a restatement of the rôle of the Federal government in the power business, has nettled and needled Federal power officials and planners no end. This was the recent charge by George M. Gadsby, president of the Utah Power & Light Company, that nationalization of the power industry under the guise of other objectives is the real aim of our Federal government. Gadsby, who is also chairman of the Edison Electric Institute's special committee to investigate a public information program, hurled his accusation of state Socialism masquerading as something else at the fifty-third annual Congress of American Industry at New York city last month.

Gadsby traced the steady march of Federal agencies towards the goal of nationalized power from the establishment of the Reclamation Bureau in 1902. He distinguished between the first thirty-one years of bureau operations (when $364,000,000 of appropriations were used to develop 2,800,000 acres of arid land and only 70,000 kilowatts of incidental electric power capacity) as compared with the last fifteen years (during which appropriations of $1,142,000,000 have been used to irrigate only 1,900,000 acres while developing an additional 2,750,000 kilowatts of electric power capacity). Gadsby added that the so-called 7-year program for 17 western states recently released by Reclamation Commissioner Straus will require Federal appropriations of $4 billion, to irrigate 2,000,000 additional acres while developing 4,325,000 kilowatts of additional power capac-

ity and from 10,000 to 20,000 miles of duplicating transmission lines.

State-FPC Gas Trouble

GOVERNOR Frank Carlson of Kansas is trying to rally some of his gubernatorial associates against what he terms efforts at Federal control of production of natural gas. Addressing the quarterly meeting of the Interstate Oil Compact Commission, in which 21 oil- and gas-producing states have joined in the interest of conservation, Carlson urged the states to fight all such Federal efforts. He also suggested that state control of production might be stabilized if the prices paid for gas are more in line with competitive fuel conditions. Specifically, he pointed out that gas companies holding long-range, low-cost contracts might adjust the same to give land and royalty owners a better return.

Governor Carlson resented the efforts of the FPC to block or discourage pipeline companies from reorganizing their operations so as to segregate intrastate production and gathering under state control. Referring to the Panhandle Eastern Pipe Line Company Case, Carlson accused the FPC of trying to "preclude the formation of a production company which would supply gas in the state in which it is produced." He added: "If FPC were to be successful this would be only another step toward the taking over of the regulation of all gas and petroleum production in the several states."

Down in Texas, the state railroad commission is going all the way to the state supreme court to enforce its recent conservation order to end flaring of natural gas. It seems that producers in the Heyser field have obtained lower court injunctions against the state commission order directing them to shut down their production entirely because about 90 per cent of the casing-head gas in that field was being flared.

In another attempt at state control of gas conservation, the *Denver Post* has suggested a state severance tax to be levied on natural gas and oil being transported out of Colorado. New potential production of oil and gas has been reported near Cortez, Colorado.

THE FPC meanwhile is tightening its control over the financial end of natural gas industry operations. In an order dated December 9th the FPC, for the first time in the history of the natural gas industry, directed that a bond issue to finance new construction had to be sold at competitive bidding.

The issue concerned was the $50,000,000 of first mortgage bonds that are to be sold by the Tennessee Gas Transmission Company to finance construction of two new "legs" in its pipe-line system.

Co-ops Need Capitalism

DO coöperatives thrive best under a democratic system of free enterprise or under a planned socialism of the totalitarian order? An admission that co-ops can quickly become enslaved and disappear in competition with state socialism was made in a recent Denver address by Howard A. Cowden, president of the Consumers Coöperative Association of Kansas City.

Cowden pointed to the action of the Communist-dominated Czechoslovakian government in nationalizing the Czech coöperative association as proof that a coöperative can operate only in a free democracy. Cowden, as head of the regional coöperative association, is chief administrator of the organization which returned a net savings to its members in nine states during the last year of $8,300,000. The coöperative word for it is "savings"; the bankers' word for it is profit.

In Denver to speak to members of coöperatives in Colorado and southern Wyoming, Cowden reported on his trip to Czechoslovakia in September to attend the International Coöperative alliance meeting. Delegates from 41 countries attended the international meeting in Prague and, Cowden ruefully reported, the Russians tried to dominate the meetings.

Exchange Calls And Gossip

REA Rural Phone Movement

It begins to appear that a new drive is going to be made during the 81st Congress for legislation authorizing the Rural Electrification Administration to make loans for rural telephone facilities. First indications along this line came with the announcement that the National Grange, at its annual convention in Portland, Oregon, in November, had endorsed a resolution in favor of giving REA authority to make loans for the purpose of establishing "self-supporting telephone systems in conjunction with REA power, or as separate systems." The grange resolution, entitled "Coöperative Telephones," favored an "energetic program by private or coöperative telephone systems to extend telephone service and to make available the latest inventions in telephone communications, particularly inventions utilizing power lines for the circuit."

Another significant indication of interest along this line was the notice given that the National Rural Electric Coöperative Association is going to press for Federal loans for rural telephones. In a recent interview with the President, Clyde T. Ellis, executive manager of the NRECA, left with the President a letter revealing his organization's aims for REA legislation during the coming year. These embraced recommendations for public power development of all kinds to the fullest extent, including "permanent valley authorities," especially in the lower Arkansas, Columbia, and Missouri river basins.

But for the first time the NRECA expressed particular concern over the rural telephone problem. It stated emphatically that REA "should be authorized to make loans to existing telephone systems and others, as may be needed, to improve and develop rural telephone facilities." As in previous years, the proposed legislation to authorize REA activities in the telephone field is expected to be introduced by Senator Hill (Democrat, Alabama) and Representative Poage (Democrat, Texas). Among other demands Ellis said REA would need "not less than $450,000,000" in new loan authority for the coming fiscal year.

Bell System Rate Cases

The Bell system continues to press for additional telephone rate increases. Latest moves have been made in California, Florida, New York, Pennsylvania, and Indiana.

In California, the Pacific Telephone & Telegraph Company plans to request an increase of 14 per cent within a few weeks. Such an advance would result in higher phone bills of about 3½ cents per day per telephone. Previous rate increases obtained amount to approximately 15 per cent on California intrastate business. These have proved inadequate to meet rising costs of materials, wages, and other operating costs with a sufficient margin of profit to attract new capital for expansion of plant. The additional annual revenue requested totals $35,000,000.

In Florida, the Southern Bell Telephone & Telegraph Company has applied to the public service commission for permission to advance its rates an average of 9 per cent. Added gross revenue would amount to $2,700,000; net income after all taxes, about $1,600,000. The new

schedule would add 50 cents to $2.15 a month to business telephone rental; 25 to 50 cents to home phone bills; and a small increase to toll calls within the state. Present request is for an immediate emergency increase under a bond posted to protect subscribers.

Bell Telephone Company of Pennsylvania has requested a general increase in local service telephone rates which would add about $25,000,000 to its gross revenue. This represents a rise of 16 per cent and additional income after payment of taxes of $14,500,000.

INDIANA BELL TELEPHONE COMPANY has presented its formal petition for a rate increase of approximately 15 per cent. No specific dollar amount was mentioned in the request. The company has spent about $40,000,000 expanding its facilities since the war and needs $35,000,000 more. Hope is to place earnings at a rate somewhat better than 6 per cent on invested capital. Boost in rates received last August, amounting to 11 per cent or $3,000,000, is not maintaining income at the necessary level. In fact, earnings have been cut by increasing costs to about $5 on each $100 of investment.

New York Telephone Company has asked for a 15 per cent increase in average rates. Pending decision on this petition the company seeks a 10 per cent immediate temporary advance. The rate changes would affect 4,400,000 subscribers in the state, including 3,100,000 in the New York metropolitan area. The entire rate structure would be changed. For example, subscribers would be provided with an enlarged toll-free area. This is the first time in eighteen years that the company has sought a rate increase. New income expected totals $49,000,000 a year.

Adverse effects of tardy and inadequate increases in telephone rates have been revealed by Thomas N. Lacy, president of the Michigan Bell Telephone Company. He reports that his company has reduced its expansion program for 1949 by $14,204,000. Construction now will total $56,300,000 instead of the originally scheduled $70,504,000. The construction pace has been reduced, he said, "because no company with return on investment as low as Michigan Bell's could continue to raise money from investors in the amounts required by the 1949 program." Mr. Lacy explained that the rate increase granted last October was "too little and too late to offset the rising costs of doing business."

Numerous cities and other interested groups are protesting telephone rate advances. Mayor O'Dwyer of New York city has announced that the city will formally oppose the 15 per cent rate increase sought by the New York Telephone Company. It will also contest the interim rate boost of 10 per cent requested.

The American Labor party (ALP) and the Communist party of New York appeared before the public service commission urging rejection of the company's application. ALP asked the commission to hold public hearings before taking any action. It proposed a statewide "people's phone lobby" in support of public hearings.

THE city of Buffalo plans to ask the New York commission to suspend the new rates proposed by the company until after public hearings are completed.

In New Jersey, the city of Newark is actively opposing a rate increase which would result in earnings of 7 per cent on investment in plant. However, the city is willing to agree to an advance which would boost earnings from the present 3.2 per cent to 5.5 per cent. The U. S. Treasury Department Bureau of Federal Supply also is intervening in the New Jersey rate case. Treasury is in there because it feels that its duty is to protect U. S. agencies with respect to telephone bills.

The city of Pittsburgh is preparing to oppose the rate boost proposed by Bell Telephone Company of Pennsylvania. The city council has authorized its legal department to protest the tariffs on the ground that they are "exorbitant and unjust."

State commissions in Florida and Vermont are delaying immediate rate in-

creases in their states. In Florida, the commission prohibited the Southern Bell Telephone Company from raising its rates 11 per cent until two public hearings have been completed. Under Florida law, a utility may increase rates on thirty days' notice unless specifically halted by the commission. In Vermont, the company had planned to advance rates on November 16th, but the commission suspended the proposed schedule on the grounds that it had no authority to act on further increases while an appeal on a previous rate case was still before the state supreme court. In reply, the company filed a new schedule to become effective January 1, 1949.

AT&T Not Boss

ONE Bell system operating company asserts that it is not dominated by its parent—American Telephone and Telegraph Company. The Pacific Telephone & Telegraph Company took this position definitely at a rate hearing before the California Public Utilities Commission. The company was asked to show cause why its annual payments to the parent company under its license fee contract should not be reduced and placed on a cost-of-service basis.

President Sullivan of Pacific Telephone defended the percentage-of-revenue basis for payments under the contract and declared that "precisely the same weight" is given to suggestions made by AT&T and those made by holders of a single share of stock. Point implied was that the operating company did not pay such fees because it was told to do so by AT&T but because it was satisfied with the arrangement on its own merits.

Pacific Telephone officials said that money was saved through consultation with the AT&T tax department, rather than setting up a duplicate organization of its own. They also pointed out that advice of the AT&T on money market conditions when issuance of new securities was being contemplated was helpful and valuable.

Giving All on the Radio

THERE seemed to be no limit to what radio broadcasters were able and willing to hand out in the way of prizes on "give-away" programs. Now it appears that the ceiling on jack pots has been reached. A 4-engined Boeing Stratocruiser airplane couldn't make the grade, even though representatives of the "Stop the Music" show did their best to make a deal with manufacturers.

The air-minded broadcasters contended that the publicity value of having the Stratocruiser on the list of prizes would be worth about $75,000 to the company. Here is the way the argument went. The word Stratocruiser would be read twice a week as the radio hawkers cried the list of prizes to be presented to lucky winners. "Stop the Music" claims that such utterances are worth $15,000 a week and the average life of a mystery melody is five weeks. There seemed to be no rebuttal to this line.

However, essential facts were stubborn. The Stratocruiser is an 80-passenger luxury ship. It weighs 70 tons. A crew of five is needed. Storage and upkeep are expensive. It costs $1,500,000. The Boeing Company just could not convince itself that $75,000 worth of publicity exactly fitted this situation.

Unity in Telephone Labor

THE largest labor organization in the telephone industry, Communications Workers of America (CWA, independent) again is giving consideration to merging with CIO or AFL. Nothing definite is expected until after the numerous current wage negotiations have been completed. Then it is expected that a national referendum of CWA members will be taken. The union's president, J. A. Beirne, urges such an affiliation so that the independent group can become "a more intimate part of the labor movement." The CWA weekly news letter expresses the union's present situation in this headline: "Bargaining Bogged Down in Some Places, Going Ahead in Others."

Financial News and Comment

By OWEN ELY

Progress of Holding Company Plans

RECENT developments with respect to holding company integration plans, since our last review of this topic in the September 23rd FORTNIGHTLY, are summarized as follows:

American & Foreign Power — The company's amended recapitalization plan was approved by the SEC in November, 1947, and was confirmed by the Federal court nearly a year later, despite strenuous opposition by a committee representing the second preferred stock. The principal issue was the degree of subordination of Electric Bond and Share's interest. An appeal from the district court was taken by three committees, but nevertheless the company had been hopeful of putting the plan into effect in the near future. A serious obstacle, however, was the refunding of the $50,000,000 debenture 5's of 2030, which the SEC apparently considered a necessary part of the recap plan. This refunding could have been carried out by a group of insurance companies on a 3½ per cent coupon basis a year and a half ago, but the contract lapsed due to the long delays. (The SEC apparently would not permit it to be consummated until the plan was approved.) The company recently reopened negotiations with insurance companies to revive the deal, but without immediate success. Another difficulty was the decline in the parent company's cash position resulting from subsidiary construction needs, and slowness in obtaining anticipated loans from the Export-Import Bank and the International Bank to aid in construction financing. This resulted in a delay in payment of the quarterly dividends on the first preferred stocks due about December 15th. (The meeting was twice postponed; now scheduled February 15th.)

The company asked the Federal court in Maine to retain jurisdiction over the plan but a few days later the SEC, considering the plan no longer "feasible," asked the court to withdraw its order confirming the plan. The court set a hearing for January 4th. Recently a new committee was created which published its views that payment of the dividend should continue and that if necessary interest payments to Electric Bond and Share (on its holdings of $30,000,000 Foreign Power notes) should be deferred. As we go to press, it is announced that the company has obtained an $8,278,000 loan for its 12 Brazilian subsidiaries from the Export-Import Bank.

AMERICAN LIGHT & TRACTION—The company has now distributed and sold its entire holdings of Detroit Edison and Madison Gas & Electric. It will continue as a natural gas holding company, controlling Michigan Consolidated Gas, Milwaukee Gas Light, and the new Michigan-Wisconsin Pipe Line Company. Completion of the pipe line may require two or three years, however. Earnings have been temporarily affected by difficulties of the subsidiaries in ob-

taining sufficient gas from Panhandle Eastern, as well as by the loss of income from Detroit Edison.

American Power & Light Company—It will be recalled that the company's dissolution plan filed last April would divide assets in the ratio of 84 per cent to preferred stockholders and 16 per cent to common; while Electric Bond and Share's companion plan adopted the formula of 79—21 per cent. Recently a compromise plan was filed using the formula 82—18 per cent. In the twelve months ended October 31st system earnings applicable to the parent company were $24,448,000. In the present market the portfolio might be estimated to be worth about 8½ times earnings (a yield basis of around 8 per cent for unseasoned new utility stocks). On this basis the value of the portfolio might be gauged around $208,000,000, which would be allocated about $170,000,000 to the preferred stocks and $38,000,000 to the common stock. This would work out roughly at $101 for the $6 preferred and $91 for the $5 preferred, while the common would get close to $13 a share. The three stocks are currently selling around 86, 75, and 8½, respectively.

Cities Service—No further developments are reported in connection with sale of the Ohio properties, Toledo Edison and Ohio Public Service. The subholding company, Arkansas Natural Gas, must also be integrated before Cities Service will be removed from the "registered" holding company list. Of course the company's oil and gas interests now greatly overshadow its utility holdings.

COMMONWEALTH & SOUTHERN—The SEC has approved the company's amended dissolution plan, which provides for retiring each share of the preferred stock by exchange for a package consisting of 2.8 shares of Consumers Power, .55 share of Central Illinois Light, and $1 cash. Stockholders would surrender their claim for par and $17 in dividend arrears. The plan is now before the Federal court in Wilmington and Judge Leahy was scheduled to hold a hearing December 30th. The plan is still being opposed by the Snyder committee which represents a relatively small proportion of the common stock. If the plan should not be appealed to a higher court, it could probably be consummated within about sixty to ninety days after approval by Judge Leahy. Following the retirement of the preferred stock common stockholders would receive one-third of a share of Southern Company, subholding company for the southern group. Assuming that in the interim Commonwealth's holdings of Southern Indiana Gas & Electric have been sold to the public, it is probable that the bank loan (incurred to supply construction money to northern subsidiaries) can be paid off, which would permit a distribution of Ohio Edison stock to the common. It is possible, however, that there might be a few month's delay in the final distribution if it is necessary to draw on current income to complete retirement of the loan. The current value of the preferred "package" is estimated around $101 compared with the current market price of 92; and the common liquidating value at about 4¼-½ *versus* the current price around 3.

Electric Bond and Share—The company recently made a public offering of its holdings of Carolina Power & Light, acquired from National Power & Light in the latter company's dissolution. This enabled it to pay off about half its bank loan, reducing it to about $12,000,000. Of the remaining holdings, Middle South Company (a proposed electric subholding company in the Electric Power & Light system) may be distributed to stockholders after the dissolution of Electric Power. Eventually, it is thought, the company will retain the fully owned Ebasco Services (now rapidly expanding its activities in many fields), and its controlling interests in American & Foreign Power and United Gas (the latter to be obtained from Electric Power & Light). Remaining miscellaneous holdings will probably be sold from time to time to retire the bank loan and furnish additional working capital for investment in subsidiaries. Based on present markets and assuming that the Foreign

Power plan is not radically changed, the value of the company's portfolio is estimated at well over $20 a share.

ELECTRIC POWER & LIGHT—The SEC staff approved the dissolution plan (with a minor change) on September 1st, and oral arguments before the commission were completed September 21st. Meantime, earnings of subsidiaries have continued to impove. Middle South Company (proposed subholding company for all electric subsidiaries) is now earning close to $2 a share on a consolidated basis. Estimated values under the plan would work out about as follows, compared with current markets:

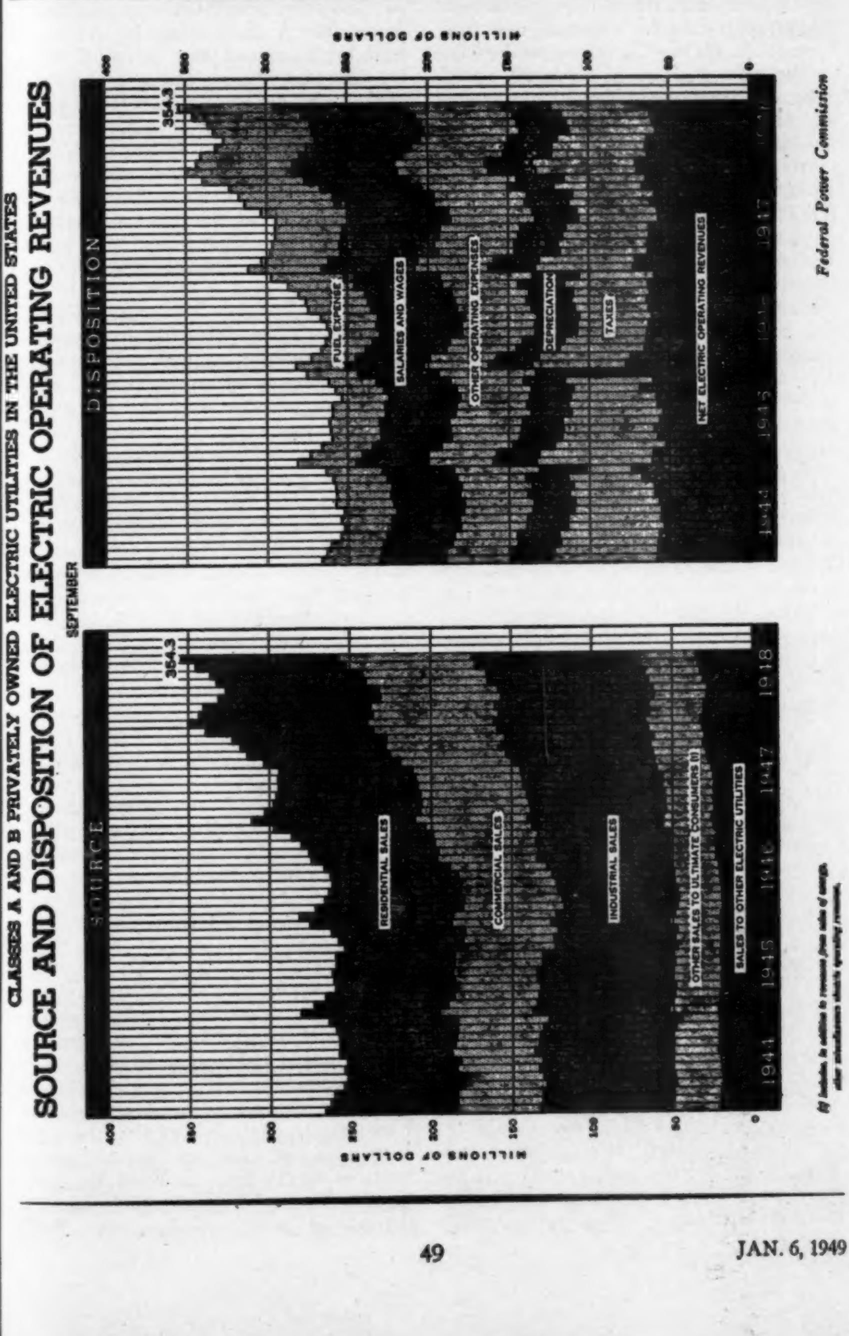
	Est. Break-up Value	*Recent Market*
$7 1st Pfd.	$200	$154
$6 1st Pfd.	180	138
$7 2nd Pfd. ...	190	142
Common	28	20
Warrants	9	6

Federal Water & Gas—The company sometime ago distributed a substantial part of its holdings. In October it filed a plan with the SEC to distribute a half share of Scranton-Spring Brook Water Service Company common stock for each share of Federal, the distribution to be made only after final dismissal of the "Deep Rock" claim for $3,500,000 damages by New York Water Service Corporation. The company has asked the SEC to dismiss this claim, since it relates to matters which occurred prior to 1932 and which it thinks should be outlawed under New York and Delaware laws. The company also asserts that the matters affecting the claims were passed upon by the commission in previous proceedings. Hearings have been twice postponed and have now been scheduled for January 5th.

International Hydro-Electric—Committees representing the bonds, preferred stock, and A stock have proved too far apart in their views to get together on a compromise plan. The old series of plans are generally regarded as obsolete now, and the trustee is expected to file an amended plan in the near future. Following this, the SEC may make another effort to bring the interested parties together, or bring the debate into the open. It had been reported some weeks ago that there was a general agreement in favor of retiring the debentures (on which 30 per cent has been paid on principal) by payment of principal in cash, thus narrowing the contest to two parties, but even this step now seems in doubt.

LONG ISLAND LIGHTING—The merger recapitalization plan now before the SEC has been strengthened by the proposal made by Consolidated Edison to acquire control of the merged company. Edison proposes to exchange $28,000,000 of new convertible debenture 15-year 3s (similar to the present outstanding issue except for maturity) for the common stock of the new company, assuming that 90 per cent of the stockholders accept the exchange offer. The ratio may, however, be reduced to 66⅔ per cent if desired. It is understood that this disposes of the opposition to the merger by the important Langley committee, which represents a substantial amount of the preferred stock. There are also some "Deep Rock" mismanagement claims brought by holders of subsidiary preferred stocks, but these already have had at least a partial airing in the courts previously, it is understood. Committees representing the common stockholders may continue to fight the plan. It is understood that Chairman Maltbie of the New York Public Service Commission is opposed to the provision in the present plan for payment of 35 cents a share to the common stock; whether this provision will eventually be dropped is not yet clear. The Warren committees have announced that they will ask Governor Dewey to create a Long Island Light, Heat & Power authority as a means to readjust the company's affairs and obtain recognition for the common stockholder's equity.

With the present Consolidated Edison convertible debenture 3s selling around 106 the $11.58 per share of new common stock to be offered Long Island stockholders would be worth about $12.30.



Federal Power Commission

Under the Long Island plan the 7 per cent preferred, currently quoted around 78, would obtain 8.7 shares of new common stock, giving it a value (on the basis of the Edison offer) of about 107; similarly, the 6 per cent preferred now around 70 might be worth 94 if both plans are consummated.

Middle West—The company has continued the gradual distribution of its holdings, after investing sufficient cash in certain subsidiaries to take care of immediate construction requirements and to bring equity capital up to (or above) the 25 per cent level usually required by the SEC. In February Central Illinois Public Service was distributed, and in November Wisconsin Power & Light and Public Service of Indiana. Recently a liquidating dividend of one share Kentucky Utilities common stock for each two shares held was declared payable January 27th to holders of record December 28th. The new stock is being traded "when distributed" around 9½. With Middle West at 6¾ this indicates a market valuation of about 1¾ for remaining Middle West holdings, which seems a little on the high side. Remaining assets consist of stock of Middle West of Canada, cash, and miscellaneous items.

NEW ENGLAND PUBLIC SERVICE — The company's remaining dissolution program, which will require retirement of the bank loan and development of an allocation formula for division of assets between the plain preferred and common stocks, appears to be indefinitely delayed. Drought conditions have depressed earnings in this territory and subsidiaries also have had to dilute their earnings by additional stock issues for construction (or rehabilitation in the case of Central Vermont).

Niagara Hudson Power — The company recently filed an amendment to its simplification plan under which the first and second preferred stocks would be exchanged for new $1.20 cumulative class A stock of the merged operating company on a 4-for-1 exchange basis. The merged operating company's capital stock would consist of 1,939,000 shares of class A and 7,473,000 common shares. Each class A share would be convertible into 1.1 shares of new common during the first three years, and on a share-for-share basis during the final three years; it would be redeemable at $26.875 after the first three years. Holders of Niagara Hudson common stock would be given an opportunity for six months after the effective date of the plan to exchange each share plus approximately $2 in cash for 78/100 share of the new operating company common stock.

Niagara Hudson Power's earnings in 1948 are abnormally low, due largely to severe drought conditions and the necessity of buying expensive power. However, the company now has about 200,000-kilowatt additional capacity in operation which will relieve the shortage, particularly as hydro conditions are now improving. Based on the 1947 earnings instead of 1948, and assuming that in dissolution all parent company taxes and interest plus half of its expenses can be eliminated, future share earnings on the new common stock under the plan are estimated at around $1.75 per share (or $1.60 a share after conversion of all the preference common stock). On this basis a dividend rate of $1.25 might seem logical. Assuming that the new stock should sell initially at about 7 per cent basis this would mean a price of 18, and corresponding value of the old stock would be 14—which compares with the present cost of around $10 ($8 market value plus $2 cash). On an 8 per cent yield basis the value of the new stock would be about 15½ and the old stock would be worth a little over 12.

NORTH AMERICAN COMPANY and *North American Light & Power* —North American Company sometime ago indicated that it had abandoned its plan to distribute its principal holdings, including Union Electric. More recently, however, in connection with the company's application for permission to transfer its holdings in West Kentucky Coal to Union Electric (which the SEC denied) it became evident that North

American will have to divest itself of the coal property. The company has not yet acquired the assets of North American Light & Power (that company's dissolution plan is awaiting expiration of a 90-day appeal period from a circuit court decision of November 4th upholding the plan), but it is considered likely that Kansas Power & Light, when acquired by North American Company from Light & Power, will be sold or distributed.

This would leave as utility holdings only Union Electric and the relatively small Missouri Power & Light (now a holding of Light & Power which might be transferred to Union Electric). There is some doubt as to the continued existence of North American Company if it remains in the utility business, since the SEC has given some indication that it might not allow North American to survive if it reduces its holdings to only Union Electric. But the Union Electric management holds that it needs North American's assistance in financing its huge expansion program, and substantial economies (about $500,000 annually) have recently resulted from the consolidation of the Federal income tax returns of Union Electric and North American Company.

Philadelphia Company — Under the simplification plan recently proposed by Standard Gas & Electric, the $70,000,000 debt would be retired through cash on hand and a bank loan. The electric subsidiary, Duquesne Light, would reclassify its common stock into convertible $1 preference common and plain common, both issues being owned by Philadelphia Company. The latter would then give the preference stock to three of its four preferred stocks (under a mandatory exchange plan), the fourth issue being retired by cash. This would reduce the Philadelphia Company to a one-stock basis, facilitating eventual distribution of its holdings. However, the company is still opposing in the Federal courts the SEC order to dissolve.

STANDARD GAS & ELECTRIC—The company recently applied for permission to resume dividends on the prior preference stocks, which the SEC has granted. The company plans to declare regular dividends covering the last quarter of 1948, payable January 25th to holders of record December 31st. Assuming regular payments are continued, this would "freeze" the arrears at $102.90 per share for the $7 prior preference stock and at $88.20 for the $6, total arrears on these issues being $46,723,000. Regarding prospects for a new dissolution plan, there have been no recent developments, and we think such a plan may await (1) elimination of the bank loan, which was recently reduced by sale of part of the Oklahoma G&E holding; and possibly (2) clarification of the status of Philadelphia Company.

United Corporation — The recapitalization plan, approved by the SEC, has been before the Federal court at Wilmington for several months. The market value of the package assigned under the plan to the preferred stock is currently around 46 compared with the market price of the stock around 40. After the plan is consummated sufficient utility stocks (including an initial distribution of Niagara Hudson) will be disposed of to take the company out of the holding company class. It will then continue operation as an investment trust.

United Light & Railways—The company distributed about one-sixth of its holdings of American Light & Traction to its common stockholders in 1948 in the form of quarterly dividend payments. According to press reports the company may soon offer some of the remaining stock to stockholders at not over 12 (the stock is currently around 18) on the basis of one American for each five shares of United. A similar offering during the spring would dispose of the remaining holdings. The company might also sell $26,000,000 15-year debentures. The cash derived from these sales would be used to retire the three issues of preferred stocks (presumably at call prices). About $6,750,000 cash also would be invested in Continental Gas & Electric, permitting the latter company to pay off its remaining bank debt.

RECENT FINANCIAL DATA FOR PRINCIPAL ELECTRIC OPERATING COMPANY STOCKS

		12/15/48 Price About	Indicated Dividend Rate	Approx. Yield	Share Earnings: 12 Mos. Ended	Share Earnings: Current Period	Share Earnings: Previous Period	Share Earnings: % Increase	Price-Earnings Ratio
Revenues over $50,000,000									
B	Boston Edison	38	$2.40	6.3%	Dec.	$2.75	$2.53	9	13.8
S	Cleveland Elec. Illum.	40	2.20	5.5	Sept.	2.98	2.46	21	13.4
S	Commonwealth Edison	25	1.50	6.0	Sept.	1.73	2.08	D17	14.4
S	Consol. Edison of N. Y.	22	1.60	7.3	Sept.	2.29	1.61	42	9.6
C	Consol. Gas of Balt.	58	3.60	6.2	Sept.	3.86	5.51	D30	15.0
S	Consumers Power	30	2.00	6.7	Oct.	2.76	2.81	D 2	10.9
S	Detroit Edison	20	1.20	6.0	Oct.	1.45	1.49	D 3	13.8
C	Duke Power	70	4.00	5.7	Dec.	6.29	8.17	D23	11.1
C	Northern States P. (Minn.)	9	.70	7.8	Sept.	.89	.93	D 4	10.1
S	Pacific G. & E.	31	2.00	6.5	Sept.	2.36	2.38	D 1	13.1
S	Penn Power & Light	17	1.20	7.0	Oct.	2.30	2.04	13	7.4
S	Philadelphia Elec.	20	1.20	6.0	Sept.	1.60	1.80	D11	12.5
S	Pub. Service E. & G.	20	1.60	8.0			—	—	10.6
S	So. Calif. Edison	29	1.50	5.2	Sept.	1.84	1.70	D 8	15.8
	Averages			6.4%					12.3
Revenues $10-$50,000,000									
O	Atlantic City Elec.	15	$1.20	8.0%	Sept.	$1.39	$1.40	—	10.8
S	Birmingham Elec.	10	—	—	Oct.	1.14	1.64	D30	8.8
S	Carolina P. & L.	27	2.00	7.4	Oct.	3.28	3.12	5	8.2
S	Central Hudson G. & E.	7	.52	7.4	Sept.	.57	.63	D10	12.3
O	Central Illinois P. S.	14	1.20	8.6	Sept.	1.73	1.80	D 4	8.1
O	Central Maine Power	16	1.20	7.5	Nov.	1.34	1.44	D 7	11.9
S	Cincinnati G. & E.	28	1.40	5.0	Sept.	2.85	2.84	—	9.8
S	Columbus & S. Ohio Elec.	36	2.80	7.8	Sept.	3.98	4.20	D 5	9.0
O	Connecticut L. & P.	52	3.25	6.3	Oct.	3.48	3.33	5	14.9
S	Dayton P. & L.	25	1.80	7.2	June	2.24	2.46	D11	11.2
O	Delaware P. & L.	16	1.00	6.3	Sept.	1.73	1.66	D 4	9.2
S	Florida Power Corp.	13	1.00	7.7	Sept.	1.53	1.36	D13	8.5
S	Gulf States Util.	17	1.20	7.0	Sept.	1.67	1.65	1	10.2
C	Hartford Elec. Light	47	2.75	5.9	Dec.	2.90	2.97	D 2	16.2
S	Houston Lighting	46	2.20	4.8	Oct.	3.58	2.74	31	12.8
S	Idaho Power	33	1.80	5.5	Oct.	2.91	—	—	11.3
S	Illinois Power	27	2.00	7.4	Sept.	3.03	2.69	13	8.9
O	Interstate Power	7	.60	8.6	June	.84 PF	—	—	8.3
O	Kansas Gas & Elec.	23	1.60	7.0	Sept.	2.31	2.62	D12	10.0
S	Louisville G. & E. (Ky.)	24	1.60	6.7	Sept.	2.66	2.08	28	9.0
O	Minnesota P. & L.	24	2.20	9.2	Dec.	3.40	2.88	18	7.1
O	Oklahoma G. & E.	31	2.40	7.7	Sept.	3.47	3.65	D 5	8.9
O	New Orleans Pub. Serv.	34	2.25	6.6	Oct.	2.78	2.90	D 4	12.2
O	No. Indiana P. S.	14	1.20	8.6	Sept.	2.07	—	—	6.8
S	Ohio Edison	27	2.00	7.4	Oct.	2.77	2.74	1	9.7
O	Portland General Elec.	22	1.80	8.2	Sept.	2.64	2.24	18	8.3
S	Potomac Elec. Power	13	.90	6.9	Sept.	.94	.88	7	13.8
S	Pub. Serv. of Colorado	37	2.20	5.9	June	4.73	4.83	D 2	7.8
O	Pub. Serv. of Indiana	20	1.50 est.	7.5	Oct.	2.63	2.33	13	7.6
O	Public Service of N. H.	23	1.80	7.8	Oct.	1.67	2.21	D24	13.8
O	Puget Sound P. & L.	13	.80	6.2	Oct.	1.73	1.78	D 2	7.5
O	San Diego G. & E.	13	.80	6.2	Sept.	1.01	.75	35	12.9
S	South Carolina E. & G.	7½	.50	6.7	Sept.	1.15	.54	113	6.5
O	Southwestern Pub. Serv.	28	2.00	7.1	Oct.	2.69	2.54	6	10.4
C	Utah Power & Light	22	1.60	7.3	Oct.	2.53	2.45	3	8.7
S	Virginia Elec. Power	15	1.20	8.0	Oct.	1.45	1.63	D11	10.3
S	Wisconsin Elec. Power	15	1.00	6.7	Sept.	1.59	1.78	D11	9.4
O	Wisconsin P. & L.	13	1.12	8.6	Sept.	1.35	1.40	D 3	9.6
	Averages			7.2%					9.8

RECENT FINANCIAL DATA FOR PRINCIPAL ELECTRIC HOLDING COMPANY STOCKS

		12/15/48 Price About	Indicated Dividend Rate	Approx. Yield	Share Earnings — 12 Mos. Ended	Share Earnings — Current Period	Share Earnings — Previous Period	Share Earnings — % Increase	Price-Earnings Ratio
	Integrated Holding Company Systems								
C	American Gas & Elec.	38	$1 & Stock	7.4%	Oct.	$4.28	$3.91	9	8.9
C	Central & South West	11	$ .80	7.3	Sept.	1.46	1.29	13	7.5
S	New England Elec. System	8½	.80	9.4	Dec.	1.35	1.48	D 9	6.3
O	New England G. & E.	10	.80	8.0	Oct.	1.30	—	—	7.7
S	West Penn Elec.	15	1.00	6.7	Sept.	3.50	3.04	15	4.3
	Averages			7.8%					6.9
	Systems in Process of Integration								
	Common Stocks—Dividend Paying								
C	American L. & Tr.	18	Stock	6.7%	Sept.	$ .62	$1.74	D64	29.0
C	Cities Service	44	$2.00	4.5	Dec.	10.93	6.41	71	4.0
C	Electric Bond & Share	11	.25	—	—	—	—	—	—
S	General Pub. Utilities	11	.80	7.3	Sept.	1.91	2.05	D 7	5.8
S	North American	15	Cash & Stock	—	Sept.	1.86	—	—	11.4
C	Philadelphia Co.	10	.60	6.0	Sept.	.88	.56	57	11.4
S	United Gas Imp.	19	1.30	6.8	Sept.	2.00	2.13	D 6	9.5
C	United Lt. & Rys	21	Stock	6.9	Sept.	3.36	2.98	13	6.3
O	West Penn Power	32	2.20	6.9	Sept.	2.40	2.15	12	13.3
	Averages			6.4%					11.3
	Common Stocks—Nondividend								
S	American P. & L.	8	—	—	Oct.	$4.52	$3.85	17	—
S	Commonwealth & Southern	3	—	—	Oct.	.58	5.6	D11	—
S	Electric P. & L.	21	—	—	Sept.	5.69	4.24	34	—
S	Inter. Hydro-Elec. "A"	5½	—	—	—	—	—	—	—
C	Long Island Lighting	⅝	—	—	—	—	—	—	—
C	Middle West Corp.	6⅞	—	—	—	—	—	—	—
O	New England Pub. Serv. ..	3	—	—	—	—	—	—	—
C	Niagara Hudson Power ..	8	—	—	Sept.	1.06	1.40	D24	—
C	North American L. & P. ..	7⅝	—	—	—	—	—	—	—
S	United Corp.	2¼	—	—	—	—	—	—	—

		Price About	Yield About	Approx. Arrears
	Preferred Stocks—Dividend Paying			
S	United Corp. $3 Pref.	41	7.3%	—
S	Philadelphia Co. $6 Pfd.	94	6.4	—
S	American P. & L. $6 Pfd.	82	7.3	44
S	Commonwealth & Southern $6 Pfd.	91	6.6	17
S	Electric P. & L. $7 Pfd.	150	4.7	90
C	Niagara Hudson Pr. 5% 1st Pfd.	98	5.1	—
	Average		6.2%	
	Preferred Stocks—No Current Payments			
C	Electric P. & L. $7 2nd Pfd.	139	—	114
C	Inter. Hydro-Elec. $3.50 Pfd.	48	—	51
O	New England P. S. $7 Plain Pfd.	91	—	117
S	Standard G. & E. $7 Prior Pref.	110	—	105
C	Standard P. & L. $7 Pfd.	112	—	104

B—Boston Exchange. C—Curb Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. PF—*Pro forma.* Est.—Estimated. WD—When distributed.
* *Pro forma,* including additional shares to be sold to Middle West.

What Others Think

Utility Use of Coal Expanding

ELECTRIC power utilities are expected to become the major commercial outlet for coal during the year 1949, surpassing the railroads as a market. This is the view of G. A. Lamb of the Pittsburgh Consolidation Coal Company in an address before the National Coal Association convention at New York in October. There are two primary reasons for this development. First, the railroads are actually using less coal each year because of increased use of Diesel locomotives. Second, the market for coal for electric power utilities is expanding rapidly. Some of Mr. Lamb's remarks on this subject are of interest here:

It is estimated that the railroads will buy 102,000,000 tons of bituminous coal in 1948, a reduction of 11,000,000 tons against the previous year, which is explained principally by dieselization.

The railroad shift to Diesels has been rapid since War II. Starting modestly in the early Thirties, dieselization began a steady climb through 1945 and then took on a remarkable expansion. In 1948, the railroads are likely to purchase at least 1.2 billion gallons of Diesel oil, over 2½ times the 1945 total, and equivalent to approximately 50,000,000 tons of coal. In July, 1948, compared with the same month in 1947, class I railways had 2,076 fewer steam locomotives in operation. Over the same period there was an increase of 1,216 locomotive Diesels, of which 459 were switchers and 757 road locomotives. . . .

In contrast to the railroads, electric power utilities are going to need more coal. During the ten years from 1938 to 1948, they have increased their annual bituminous consumption by 2½ times, from 39 to nearly 100,000,000 tons. Plans through 1951, as reported to the Federal Power Commission, call for an expansion of 31 per cent over capacity in mid-1948. These new plants will, in large part, be coal burning. This, and the expansion beyond 1951, will call for additional coal.

Bituminous consumption of the electric utilities increased 10,000,000 tons from 1947 to 1948, about offsetting the drop in the railroad market. It is expected to advance another 5,000,000 tons next year, thus becoming the major commercial outlet for coal. . . . the 1949 bituminous market takes on the appearance shown in the following table. The figures represent shipments and not necessarily consumption.

Probable increases in the sale of electric power are tied to a number of factors. In the main, they are to be viewed in terms of advancements in mechanization coupled with growth in population and expansion of industry. Homes are far from furnished with the electrical appliances and devices considered desirable and often necessary. Additional electricity is needed on farms. Commercial and industrial firms, large and small, will require more electrical power for lighting, air conditioning, welding, machinery, and numerous other processes and applications. It is a case of electric power generation keeping pace with the progress of the economy.

MARKET FOR AMERICAN BITUMINOUS COAL
Million Net Tons

	1947	*1948*	*1949*
Railroads (All Classes)	113	102	91
Electric Power Utilities	90	99	104
Coke Ovens and Steel Mills	119	117	114
Retail Yards	88	90	86
Manufacturing & Misc.	141	125	110
Total American Market	551	533	505
Exports	69	47	35
Total Market	620	580	540

Some experts claim that electric power sales may jump as much as 75 per cent in the next ten years.

Presently, one-third of the utility electricity is generated by water power. There will be developments in hydro but, with few exceptions, they will be in the far West and distantly removed from centers of population and industry where the bigger increases in the electrical market are to occur. It appears that hydro's position as a source of electricity will have a relative decline as fuel-generated power gains in importance.

In closing his address, Mr. Lamb remarked that the "odds are in favor of a strong American bituminous industry during the years ahead."

Utility Safety Problems

THE president of Ebasco International Corporation, K. R. MacKinnon, has made a strong plea for more attention by utility executives to employee safety plans. In an address before the public utilities section of the National Safety Congress in Chicago, October 19, 1948, he outlined the problem dramatically and concluded with some pointed suggestions.

The essential facts given and the resulting ideas presented are summarized briefly below.

Electric Utility Industry

The number of lost-time accidents per 100 employees per year declined rapidly from 1926 to 1933. It showed no further improvement until 1939, and has been climbing steadily ever since.

Fatalities per 1,000 employees per year also dropped rapidly between 1926 and 1933, less rapidly since then, but fairly steadily downward until 1946. The net result was that there was a saving of about 300 lives per year in 1946 compared with 1926—a splendid record of saving in lives, but it still left over 100 fatalities per year to work on.

Then in 1947 something went wrong; fatal accidents jumped from 108 to 173, an increase of 60 per cent. No one knows why.

Gas Industry

The above trends apply equally well to the gas industry. The statistics show an increase in lost-time accidents since 1942, particularly marked in the last four years; a lack of any improvement in the fatal accident rate since 1933. The fatal rate in 1947 was actually higher than it was in 1933. Apparently, the gas industry suffers from the same fundamental trouble as the electric; in fact, the trends are a little worse.

Telephone Industry

FOR some reasons not easy to analyze, the record of the telephone companies is much better than those of the electric and gas industries. There is a similarity of the lost-time curve to that of the electric from 1922 to 1933, except that the telephone rate fell much more rapidly than the electric. But since 1941, there is an entirely different story. Whereas the electric and gas from that time show steady increases, the telephone curve shows a steady decreasing trend, but at a much lower level than the electric.

Some possible reasons for the superior record of the telephone industry are as follows: For one thing the Bell companies have centralized supervision and standardized practices. A second feature of Bell telephone operation is its training courses for supervisors. A third feature of Bell operations, which again stems from centralized supervision, is executive interest in accident prevention.

Answers

SINCE the passage of the Holding Company Act of 1935, the electric and gas industries corporately have been almost completely disintegrated. They have lost whatever centralized supervision they had, and can never recover the benefits that flow from unified direction and control.

What then must be done in the electric and gas industries to turn the accident curves down?

First and foremost in importance is the matter of executive interest. There is no substitute for sustained active participation by the heads of the organization.

Next in importance in "things to do" is to develop job analysis on a major scale. Safety should start before the job. There should be handbooks of instruction for every type of work which discuss the hazards of each job before it is tackled.

The third big job in the years ahead is for all companies to develop sound training programs for apprentices, foremen, and supervisors. Understanding of human relations and emotional upsets of employees is important. Not only must our foremen study their men, but our superintendents must study the foremen to see that they too are free from neurotic tendencies which make them — and, through them, their men — accident prone.

And while the superintendents are checking the foremen, who will do the checking on the superintendents? We must be sure that they too are schooled in safe operating methods and in human relations.

Officials in line of authority must learn to accept their full responsibility for accidents, and the higher the official, the greater the responsibility. This program is one for all hands to work on.

Mr. MacKinnon's complete address is being distributed by W. T. Rogers, safety consultant, Ebasco Services Inc., Two Rector street, New York 6, New York.

Emerging from Darkness

THE Rochester Common Council ordered all electric wires put on poles as a safety measure in 1882. Previously they had been strung from roof to roof. Interesting facts of this type make the "Centennial Book" of the Rochester Gas & Electric Corporation a joy to read.

The Rochester Gas Light Company, earliest corporate predecessor of Rochester Gas & Electric Corporation, was formed and commenced business in 1848. This circumstance provided an occasion to recall the changes which the century has brought to Rochester and the company.

The centennial book, entitled "A Century of Service," is warm with human history of the community and the company. The reading of it makes one feel the company's executives are and have been much more than "cold businessmen." Enough of sincere flattery. Let's look at the book itself.

Carrying on from 1882, we are informed that in 1883 Rochester had 2,514 gas lamps, 1,588 kerosene oil lights, and 52 electric lights on its streets.

"The 1890's was a time of keen rivalry among the gas and light companies and saw new enterprises hatched and old ones pass. It was the time of the quarter-in-the-slot gas meter and of the carbon lights on the streets, that would flash on, sometimes in broad daylight, to the utter amazement of the inebriate who had accidently stumbled against a pole. It was a pleasant, tranquil time, save for the brief period of the war with Spain."

Jumping to 1909, Rochester had 3,000 electric lights and 120 gas street lamps. This compared with 30 whale oil lamps on the streets in 1834 when Rochester was made a city. Today, there are 27,000 street lights in the RG&E territory.

IT was in the first peacetime year of 1919, after World War I, that the utility took its present name of Rochester Gas & Electric Corporation, changing from Rochester Railway & Light.

And now 1948—a year of uneasy peace—is the centennial year. The RG&E is celebrating the end of one century of service and the beginning of another. Today it serves an area that covers

2,147 square miles and includes 160,000 customers in two cities (Rochester and Canandaigua), 8 counties, 65 towns, and 165 villages and hamlets. It has 2,700 employees and an annual payroll of $8,-000,000. Thirteen steam and hydroelectric generating stations, 4 gas plants, and 5 steam stations are required to meet the needs of the communities served by the company, together with $50,000,000 of additional construction either planned or under way for the next few years. That is not the complete story of course. Limited space here puts an end to the statistics.

Returning to the beginning, in 1848 Rochester was an up-and-coming city of about 32,000 people. It was the foremost flour milling center in America, a busy canal port, and on two young railroads. This was thirty-seven years after Nathaniel Rochester laid out his village in the swamp beside the falls of the Genesee.

"So it came about that on May 19, 1848, a little group of businessmen organized the Rochester Gas Light Company with a capitalization of $150,000." As darkness fell, on December 13th of that year, "men, women, and children converged on Franklin street and how they cheered when Althea Arabella Jones, the 11-year-old daughter of Contractor Jones, applied a taper to the open flame gaslight in the cupola and 'it burned bright and clear.' "

"Shortly, 9 other street lights in the central district were turned on, for the city council had contracted with the gas company for a total of 12 lights at an annual rate of $25 per lamp—but only until midnight and only on 'nonmoonlit' nights."

Company regulations soon became necessary. Here is one: "In cold weather the meter and service pipes must be carefully protected from the action of the frost. In case they cannot be fully protected, the inspector will upon application apply them with alcohol or high wines at the expense of the consumer."

The discovery of oil in Pennsylvania in 1859 brought the gaslights a lively competitor, although it was 1865 before kerosene came into general use for street and interior lighting.

Wick trimming and the "old lamplighter" were born.

Notes on Recent Publications

Employee Relations Again. In an article in the May, 1948, *Harvard Business Review,* Ross G. Walker discusses the problem of "The Misinformed Employee." Mr. Walker is professor of business administration at the Harvard Business School. He concludes that one good way of properly and beneficially informing the worker would be to establish a special staff assistant representing labor in management's councils. The idea is not new; nor is it popular with business executives. However, the challenging treatment given the subject by the author may prove helpful to some utility leaders. Certainly it is close to "must" reading for those dealing exclusively with employee relations.

The introductory paragraph gives the reader somewhat of a jolt:

> A recent survey of top executive opinion conducted by the Controllership Foundation, Inc., tells a surprising story about the progress we are making in industrial relations, particularly as regards action proposed for handling the problem of the "misinformed" employee. The surprising part is that there seems to be no indication of progress at all. We are standing still—either that or the current challenge posed by the old problem of labor-management communications is itself far out of all reasonable bounds of practicality.

The article contains more than an analysis of the above survey. It reviews numerous current books and publications on the subject and gives the opinion of several industrial leaders and well-known educators. The writer believes that some plan of labor representation in management's councils would make for strengthening, rather than weakening, management's prerogatives — "would in fact lessen rather than increase the risks of their invasion by the economic power of labor." *Harvard Business Review,* May, 1948, Published bimonthly. Editorial and business offices, Gallatin House, Soldiers Field, Boston 63, Massachusetts. Price, $1.50 per copy.

The March of Events

In General

NSRB Issues Staff Study

ELECTRIC power generating capacity in the United States is expected to reach an unprecedented total of 72,000,000 kilowatts by 1951—an increase of 22,000,000 over 1947—although the power situation will remain critical during the current winter, according to a staff study made public on December 13th by Arthur M. Hill, chairman of the National Security Resources Board.

The study, the second to be completed on the same subject by NSRB, was made by a group of power experts representing the government and industry, under the direction of Edward Falck, chief consultant to the board on power and utilities.

Mr. Hill, in transmitting the study to the President, paid tribute to the leaders of the power industry, both public and private, in bringing about such an expansion of generating capacity. "Few industries in the country," he said, "can equal this striking record of postwar expansion."

President Truman on December 6th accepted the resignation of Mr. Hill as chairman of the National Security Resources Board. A brief White House announcement said that Mr. Hill had resigned, effective December 15th, to return to his job as an executive with the Greyhound Bus Corporation.

Mr. Hill had served as chairman since the board was organized in 1947.

In accepting his resignation, the President praised Mr. Hill for his "wisdom, foresight, and sound judgment" as chairman of the board, which was created under the law which unified the Armed Forces into a single National Defense Department in 1947.

The board's stated job is to keep tab on the nation's natural resources and manufacturing facilities with an eye to a possible war emergency. It is not an operating agency.

FPC Vice Chairman Elected

COMMISSIONER Claude L. Draper of Wyoming was unanimously elected vice chairman of the Federal Power Commission on December 7th, to serve during the calendar year 1949. He succeeded Harrington Wimberly of Oklahoma, who served in 1948.

Commissioner Draper has been a member of the Federal Power Commission continuously since 1930 when the commission was first organized as an independent agency. Prior to that he served for eleven years as chairman of the Wyoming State Board of Equalization and the Wyoming Public Service Commission.

California

Wider Federal Power Authority Urged

MAXIMILIAN G. BARON, Federal Power Commission examiner, recently found that the "public interest will be best served if the power resources of the Kings river basin in California are developed by the Federal government."

Baron's recommendation, which went to the commission for consideration, would give the Bureau of Reclamation authority to develop the power available through the irrigation of California's Central valley, and would be precedent for every future multiple-purpose reclamation or river control project in the West.

Baron said he had based his findings on evidence presented by the bureau in support of its own comprehensive program of California river development, as compared with applications submitted by the Pacific Gas and Electric Company, the Fresno Irrigation District, and by Francis N. Dlouhy of Los Angeles.

Prior to the presentation of any testimony, Secretary of Interior J. A. Krug had requested that all of these applications be denied in the light of the Reclamation Bureau plans.

Examiner Baron ruled out the PG&E proposal on grounds that it did not cover all of the possible power developments. He found that while the Fresno application might be accorded preference over other applicants because it is a municipal corporation, its program did not set out a development plan of sufficient detail.

The Dlouhy application was withdrawn.

Lauds Court Decision

THE state public utilities commission lauded the decision last month of the Federal Circuit Court of Appeals denying the Continental Press Service's petition for the restoration of its horse-race news service.

R. E. Mittelstaedt, president of the commission, said the Federal court decision, while based on rules and regulations of the Federal Communications Commission, strengthens the decision last April of the utilities commission ordering the discontinuance of the service to bookmakers.

The state agency's ruling directed Western Union and other wire service firms to stop service within the state to individuals or organizations believed by state law enforcement officers to be using it for illegal purposes.

The new court decision affirmed the ruling of the Federal court for the southern California district.

Illinois

To Receive Straight Natural Gas

UNDER an order approved last month by the state commerce commission, more than 90,000 gas users residing in 20 western suburbs of Chicago served by the Public Service Company of Northern Illinois will receive straight natural gas by the end of 1949 in place of the mixed gas now supplied, it was announced recently.

The proposed change was dictated, company officials said, by large increases in the use of gas by residential, commercial, and industrial customers and the tremendous building development in the area during recent years which have taxed existing facilities to capacity.

Gas service in northern and southern suburbs was similarly converted during the past two years.

The natural gas to serve the area will be obtained by connecting the utility's distribution mains with the pipe line of Chicago District Pipeline Company.

Massachusetts

Will Not Issue New Order

LAWS govern distribution of gas by private companies of Massachusetts for heating purposes and hence the state department of public utilities does not believe it ought to issue any order to add to

the general principles expressed by the statute and under the law.

This is the department's decision after investigation, on its own motion, as to the propriety of all house- and space-heating and air-conditioning units restrictive clauses in the various rate schedules filed with it, and as to whether it ought to make uniform restrictive clauses for all gas companies in the state.

Hearing was held and interested companies gave their views. No need to restrict availability of gas for these purposes was found to exist, as all gas now or for the immediate future in the state is manufactured.

Michigan

Expert Counsel Authorized

THE Lansing city council last month authorized the employment of expert legal counsel to aid the city in its fight against gas rate increases threatened by Consumers Power Company, and sent a resolution to the state public service commission requesting reopening of hearings on the matter.

Mayor Ralph W. Crego was authorized to obtain the services of legal counsel experienced in dealing with utility problems, to aid the city in negotiating with the state commission.

It had been reported by city officials that if the petition of Consumers Power Company were allowed, it would bring a 77 per cent increase in gas rates in Lansing and other users in the central Michigan area served by the firm.

The Consumers petition was filed last April and the commission claimed it notified municipalities to be affected by the raise, of a hearing to be held in November. Many of the cities declared they never received the notices. The hearing held in November failed to bring out any opposition to the rate increase.

Missouri

FPC Dismisses Application

THE Federal Power Commission last month dismissed for want of jurisdiction the application of the Sho-Me Power Corporation, Marshfield, for FPC authorization to sell part of its electric utility properties and facilities to REA co-ops and Missouri municipalities.

The commission's findings said the corporation is a "public utility" as defined by the Federal Power Act. However, the FPC order pointed out that part of the facilities proposed to be sold are used for transmission of electric energy wholly within a single state and are thus not subject to FPC jurisdiction. Although the other facilities involved in the proposed sale are used in interstate transmission, the commission noted that they are used in local distribution of the energy so transmitted. The commission concluded, therefore, that the entire sale of the properties was not subject to its jurisdiction.

Seek Power over Transit Fares

THE board of aldermen of St. Louis recently adopted a resolution asking the state to give the city the power to regulate fares on streetcars and busses. In the same resolution, the aldermen announced opposition to the fare increase sought by the Public Service Company.

A resolution proposing municipal ownership of the transit system in the city was referred to the resolutions committee when the aldermen refused, by a vote of 24 to 3, to suspend the rules to consider it. Referral to the resolutions committee is considered tantamount to killing the proposal.

New York

Gas Rates Increased

DOMESTIC gas users in the area served by the Iroquois Gas Corporation will have to pay from 7.7 per cent to 15.4 per cent more on their net gas bill under the interim rate increase recently granted to Iroquois by the state public service commission.

Examination of the temporary boost, to become effective upon the filing of the new rate schedules and to continue until August 31st, showed that the 7.7 figure would apply to the great bulk of Iroquois customers.

The big bloc of Iroquois consumers are the 160,000 who fall into the "all-purpose class" for which Commissioner Maurice C. Burritt has authorized a 5-cent increase for 1,000 cubic feet. According to Stuart H. Nichols, Iroquois vice president, the "all-purpose" user is one who takes gas for any or all of such purposes as cooking, refrigeration, auxiliary heating, etc., and has not been accepted in the optional "Classification Five." This classification concerns those consumers who have applied for and been granted the special rate for house or water heating.

Pennsylvania

Condemns "Public Utterances"

STATE Senator H. Jerome Jaspan declared in a statement that "public utterances made recently by John Siggins, Jr., and other public utility commission officials, expressing concern over the financial condition of utilities throughout the state, should disqualify them from sitting in or acting on any future applications for rate increases."

The Philadelphia legislator contended that "no judge, commissioner, or examiner has either the moral or legal right to express an opinion or hazard a guess in advance of hearings."

South Dakota

Seek Law Setting Up Districts

THE South Dakota Farmers Union urged its members last month to "go to bat" in the 1949 legislature for a state law to legalize setting up public power districts.

The Farmers Union said "although REA's have grown to lusty proportions in South Dakota—50 co-ops with around 50,000 members—they still have one big hurdle. That hurdle is the assurance of a supply of firm power at a cost which won't jeopardize the financial health of the coöperatives."

REA leaders feel they can nearest approach this objective by setting up power districts which could buy power from Missouri installations and sell it to coöperatives and cities, the Farmers Union said.

Virginia

Court Upholds Segregation

THE United States Fourth Circuit Court of Appeals at Richmond last month upheld the right of an interstate carrier to segregate the seating of Negro and white passengers "providing there is no discrimination in the arrangement."

The appellate court handed down an opinion affirming a district court judgment denying $25,000 to a Negro woman.

Progress of Regulation

State Commission Asserts Jurisdiction over Intrastate and Interstate Electric Company

A MOTION to dismiss a state commission investigation of the rates of an electric company furnishing both interstate and intrastate service was denied by the Pennsylvania commission. The motion to dismiss was based upon two principal arguments:

In the first place, it was claimed that the Federal Power Commission had issued an order reducing the rates and charges of the company in question.

In the second place, it was urged that the exercise by the Federal Power Commission of jurisdiction over the rates of the company excluded any state regulatory power or jurisdiction, so long as the exercise of jurisdiction by the Federal commission was in full force and effect.

The Pennsylvania commission found that the electric company was a Pennsylvania corporation having all of its facilities in Pennsylvania, filing its tariffs with the state commission, and rendering electric service in Pennsylvania. The electric services were rendered to Pennsylvania customers for resale in Pennsylvania and were held to be intrastate commerce. It was admitted that the company did interstate as well as intrastate business, but it was pointed out that the two types of service were readily separable for the purpose of regulation.

The commission held that any attempted exercise of jurisdiction by any other agency, whether state or Federal, over the rates of the electric company could have no effect to oust the state commission of its jurisdiction. It said:

> We do not believe that a sovereign state must appear before a Federal administrative agency to determine whether its law or a related Federal law governs a given situation. Nor can the decision of a Federal administrative agency in interpreting a state statute be considered binding upon the state. . . . The field in which we have acted is intrastate commerce, and the FPC cannot, by its mere assertion, oust our jurisdiction. The Federal Power Act does not confer such jurisdiction upon the FPC, and it would be unconstitutional if it did so. We are of the opinion that the attempt of the FPC to exercise jurisdiction over SHWP does not deprive this commission of its jurisdiction, nor does it prevent us from exercising jurisdiction over the rates and charges of SHWP in our own proceeding.

Pennsylvania Pub. Utility Commission v. Pennsylvania Water & Power Co. et al. (Complaint Docket No. 14028).

Telephone Rate Increase Denied for Failure of Proof

THE burden is upon a company seeking higher rates to show that the proposed rate structure will be reasonable for a reasonable period of time in the immediate future. So says the Kentucky commission in a decision resulting

in denial of increased intrastate telephone rates.

Utility rates, adds the commission, should not fluctuate either upward or downward habitually every six months. This would be unfair to the investor, to management, and more especially to the public. Because a utility earns much or little during a short period, says the commission, is no reason why its rates should be altered unless there is good reason to believe that the excess or deficiency in earnings will continue into the future. Data in a rate investigation should cover several years, showing in reasonable detail records for the past and estimates for the future.

The commission considered irrelevant evidence as to average investment when it included original cost of plant in use, under construction, or held for future use, plus cash requirements, and made no allowance for depreciation of plant.

Evidence of reproduction cost, although admissible, was not considered satisfactory. The commission said it did not show whether reproduction prices were based upon present-day costs for single units or for quantity lots. Prices were estimated as of a certain date and brought forward to a later date by formula. Prices were not averaged over the period which would be required to reproduce the plant.

Much of the plant could not reasonably be reproduced and would not be reproduced because of obsolescence. A modern plant would differ from the existing plant. Moreover, said the commission, for rate-making purposes the "ephemeral" factor of reproduction cost as of a given date cannot be divorced from the related cost of reproduction money as of the same date.

Criticism was forthcoming because of a large discrepancy in favor of interstate toll charges when compared with intrastate tolls. The commission said that although it lacked jurisdiction over interstate toll rates, it was not required to approve intrastate toll rates to subsidize interstate service.

The recent reduction in the payment to the American Telephone and Telegraph Company for services and licenses, from 1½ per cent to 1 per cent, was said to be a matter of public knowledge. Since rates were being fixed for the future, only 1 per cent was allowed as an operating expense.

Allocation of property and expenses on a use basis without considering stand-by value to the subscriber was criticized. The commission favored an allocation upon the basis of "value of service," which was said to be the basis for allocating rates generally. *Re Southern Bell Teleph. & Teleg. Co.*

Gas Curtailment Rule Discriminatory in Integrated System

THE Michigan commission, in (1948) 74 PUR NS 406, dismissed a petition by industrial customers seeking to prohibit a natural gas company from curtailing service during a shortage of supply. The commission now, after a rehearing in which fundamentally different facts were developed, has decided that the company's curtailment rule is discriminatory.

The Michigan Consolidated Gas Company supplies service in the Detroit area and also in the Grand Rapids and Muskegon areas. The curtailment rule was being applied to the western district. After the commission's earlier decision the Austin-Detroit pipe line was completed, resulting in physical interconnection between the districts.

Complete interconnection throughout the natural gas system, according to the commission, resulted in the rule permitting discontinuance to industrial customers in the Grand Rapids and Muskegon districts as discriminatory. This was because of the fact that customers of the identical class in the Detroit district of the same integrated system were not subject to any such rule. *Re Michigan Consolidated Gas Co. (D-3000 48.4).*

Depreciation Rates Certified on Straight-line Rather Than Sinking-fund Basis

The Wisconsin commission, in certifying depreciation rates for an electric utility, disapproved a 3½ per cent sinking-fund method. Accordingly, depreciation rates certified were determined on a straight-line basis.

Experience with the depreciation practices of the company, said the commission, had amply demonstrated that the 3½ per cent sinking-fund method might not reasonably be employed, since there had been a serious and continuing disagreement between the company and the commission as to actual earnings on depreciation reservations.

The commission continued:

> In subsequent cases involving utility rates, the company has taken the position that annual depreciation expense should be computed on a 3½ per cent sinking-fund basis and that no accrued depreciation should be deducted in ascertaining a rate base. It has given no effect in operating income to actual earnings on depreciation reservations in excess of the theoretical 3½ per cent. Further, in estimating actual earnings on depreciation reservations as required by the commission's previous certification of depreciation rates, the company has assumed that substantial parts of depreciation reservations on electric property were invested in transportation property. Since the earnings on transportation investment have been much lower than the earnings on electric investment, this procedure resulted in showing substantially lower earnings on electric depreciation reservations and in large measure invalidating the results for rate-making purposes.

It was also noted that the company had been accruing depreciation as a percentage of revenue although a previous certification provided for percentage rates to be applied to plant investment. The company had not, in fact, been accruing depreciation on a sinking-fund basis and had made larger provisions for depreciation expense than the amount indicated by the depreciation rates previously certified. Compounding of interest on the excess provisions, said the commission, would increase future annual charges and make the total excess in the depreciation reserve progressively larger.

A request for certification of depreciation rates for transmission land and land rights, transmission clearing land and rights of way, and distribution line easements was denied. The commission said the provisions of the uniform systems of accounts prescribed for electric, gas, and water utilities classify land and land rights as nondepreciable plant and no depreciation accruals thereon are authorized.

The commission added, however, that this was without prejudice to any application for amendment of the provisions of the systems of accounts which the company might desire to present.

Explaining the company's position, the commission said:

> Depreciation rates for these classes of plant are requested because the investment in easements is only of use as long as the lines are located thereon and in event of abandonment of the line becomes valueless. Similarly, right of way which is owned has a very small residual value.

Re Wisconsin Electric Power Co. (2-U-2633).

Foreign Commerce Not Included in Regulation Of Interstate Commerce

The United States Court of Appeals for the District of Columbia set aside an order of the Federal Power Commission based on a claim of jurisdiction over a company exporting natural gas. Interstate and foreign commerce, said the court, have been distinct ideas ever since they appeared as two concepts of the Constitution, and authority to regulate interstate commerce does not include authority to regulate foreign commerce.

The Border Pipe Line Company owns and operates a gas pipe line located wholly within the state of Texas. It sells gas at its terminus near the Rio Grande river to an industrial consumer which transports the gas into Mexico and uses it there. The commission had ruled that this company was a "natural gas company" within the meaning of the Natural Gas Act and must obtain a certificate of public convenience and necessity.

Rejecting the commission's request to interpret "interstate commerce" so as to include foreign commerce, the court said it could not write into an act of Congress a provision which Congress affirmatively omitted. Commenting on the division of authority between the congressional and judicial branches of government, the court said:

> It is bad from the viewpoint of sound government for the courts to twist strange results out of otherwise understood expressions of the legislature. If, perchance, the judiciary does not reach the objective at which the legislature aimed, there is a most undesirable confusion of functions of the two branches. Such practice by the judiciary is also bad from the viewpoint of the law generally. Words of established meaning are given an unnatural significance, and thereafter whenever they appear the law is uncertain. The interpretation of statutes is not like the interpretation of a will, where the person whose intent is to be ascertained no longer lives and some meaning must be given his expressions however meaningless; or of a contract as to which the sole parties differ in their assertions of intent or meaning. In those situations an interpretation is the only available procedure and, once had, is irretrievable. Not so in the case of a statute; the Congress is in frequent session, its doors open, and its committees available.

Border Pipe Line Co. v. Federal Power Commission.

FCC May Supervise Composition of Radio Traffic

An appeal by a radio station from a Federal Communications Commission order denying its petition to increase power and change frequency, to permit it to plug in on a national network, was affirmed by the United States Court of Appeals for the District of Columbia.

The station claimed that the order was beyond the commission's authority to regulate radio communication.

This was answered by the court with a reference to a Supreme Court ruling involving the same principle:

> . . . the commission's powers are not limited to the engineering and technical aspects of regulation of radio communication. Yet we are asked to regard the commission as a kind of traffic officer, policing the wave lengths to prevent stations from interfering with each other. But the act does not restrict the commission merely to supervision of the traffic. It puts upon the commission the burden of determining the composition of that traffic.

One reason for the commission's action was that the intention of the station to carry the national network's complete sustaining and commercial schedule indicated that no effort would be made to tailor the program offered by the national network to the particular needs of the community served by the station. This, the court felt, did not meet the responsibilities of a radio broadcast licensee.

To the station's charge that the action of the commission amounted to a form of censorship forbidden by the Communications Act, the court stated:

> . . . censorship would be a curious term to apply to the requirement that licensees select their own programs by applying their own judgment to the conditions that arise from time to time.

Simmons v. Federal Communications Commission, 169 F2d 670.

Commission Wary of Loans between Affiliates

A transportation company's application for permission to make a loan to an affiliate so that the affiliate would be able to pay employees' wage

claims was approved by the New York commission, subject to conditions.

Both the lender and borrower are subsidiaries of the Third Avenue Transit Corporation and consequently are under common control. The fact that the borrowing corporation's credit record was not too good and that its history indicated a series of improvident declarations of dividends made the commission wary of approving the loan if it would merely permit more money to be diverted into the hands of the holding company.

The commission expressed the general rule applicable in such cases:

> The application is made under § 107 of the Public Service Law which was enacted in part to prevent the abuses of the holding company system such as the payment of funds under the guise of loans between subsidiaries and affiliates. Except for cogent reasons, applications under this section should not be granted.

The fact that employees' wages were to be paid with the borrowed money was an important factor in influencing the commission's decision to approve the loan. However, stringent conditions were imposed to insure the return of the money and that the money in the hands of the affiliate be used to pay wage claims.

The borrowing company's plea for a rate increase as the "only means of meeting its obligation" was denied by the commission. The commission commented:

> It should be pointed out that no company has the legal right nor any claim based upon any moral consideration to burden future riders because of past derelictions. Instead of providing for its creditors, it saw fit to dissipate its assets in the form of dividends to a holding company.

Re Westchester Street Transp. Co., Inc. (Case 14003).

Titles and Index

Preprints in This Issue of Cases to Appear in PUBLIC UTILITIES REPORTS

Titles

Index

Public Utilities Reports (_New Series_) are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are $7.50 each; the Annual Digest $6.00. _Public Utilities Reports_ also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

PUBLIC UTILITIES REPORTS

NEW JERSEY DEPARTMENT OF PUBLIC UTILITIES

Jack Berenato
v.
New Jersey Bell Telephone Company

Docket No. 4077
October 27, 1948

COMPLAINT *against telephone company to obtain restoration of service; company ordered to restore service when facilities are available.*

Service, § 134 — Denial for gambling — Telephones.

1. A telephone company is justified in discontinuing service in a restaurant building adjacent to a building in which the owner of both of the buildings has used his telephones for unlawful purposes, where the company acts in good faith to assist law enforcement officers in their efforts to prevent possible violations of law and relies on representations of the officers that it is in the public interest to discontinue the service, notwithstanding the fact that there is no clear or convincing proof that the telephone located in the restaurant, or any wires connected therewith, were ever used illegally, p. 2.

Service, 134 — Denial for gambling — Restoration — Telephone service.

2. A telephone company is justified in its refusal to restore service in a restaurant within a short period after service has been discontinued at the request of law enforcement authorities where, in addition to the original police request to disconnect service, the company relies on a letter from the attorney general's office to the effect that the nature of the physical construction of the rear portion of the restaurant premises made it appear that bookmaking might be carried on, p. 3.

Service, § 134 — Restoration after removal for gambling — Relevant considerations.

3. The Commission decision as to whether telephone service should be restored in a restaurant to which service had been discontinued, at the request

of police officers upon discovering that the owner of the restaurant had been carrying on a bookmaking business in the adjacent premises, should not be based upon the alleged suspicious appearance of the construction of the restaurant building or the previous conduct of the owner, where the court has seen fit to place him on probation to test his future conduct after conviction of gambling charges, p. 3.

Service, § 134 — Restoration after discontinuance for gambling — Commission's position.

4. The Commission will not interfere with a convicted gambler's right to conduct and pursue a legitimate restaurant business by requiring a telephone company to continue withholding service from him, where local police authorities have indicated that they have no objection to restoration of telephone service in a restaurant in which no gambling activity has ever been reported, p. 4.

Service, § 134 — Restoration after denial for gambling — Conditions.

5. The Commission, in directing a telephone company to restore service to a restaurant owned by a customer who had been convicted of gambling in adjacent premises, directed that his request for service be treated as a new application and placed on the waiting list as of the date of the Commission order and that, as a precautionary measure in view of the customer's previous conduct, the equipment be installed in the front part of the premises and in the open and unobstructed view of restaurant patrons, p. 4.

APPEARANCES: Edward I. Feinberg, for the complainant; A. J. Bittig, for the respondent.

By the COMMISSION: The complainant, Jack Berenato, owns premises known as 2019 Pacific avenue, Atlantic City, New Jersey, and thereat conducts a restaurant business known as "Luigi's." He applied to the respondent, New Jersey Bell Telephone Company, for telephone service in and for his restaurant business such service having been discontinued by the company under circumstances hereinafter related. The request was refused.

The issues in the case now before us for determination come before us through the filing of a formal complaint by counsel for Mr. Berenato, an answer filed on behalf of the company and proofs submitted at a hearing held on the 22nd day of September, 1948.

There are three questions for consideration.

[1] The first is whether the action of the company in discontinuing telephone service was justified. We resolve the answer to that inquiry in favor of the company, considering the facts hereafter stated.

It appears the complainant owns additional property, or controls ownership of a corporation holding title to premises, adjacent to the restaurant. The adjacent premises, a hotel known as The Tryon, located at 2017 Pacific avenue, Atlantic City, New Jersey, was being used for unlawful purposes on or about September 25, 1947, when a raid took place and in a ground floor room of the building certain gambling paraphernalia, wires, and 'phones were found being used for illegal purposes. These facts are admitted by the complainant. The proofs further indicate that the com-

plainant was arrested at the time of the raid, charged with certain violations of law, later indicted and subsequently entered a plea of non vult to the two counts contained in the indictment. He was fined and sentenced to prison for terms of two to three years on each of the two counts. The prison sentences were suspended, however, and the complainant was placed on probation for a period of five years.

At the time of the raid one or more of the officers in charge disconnected some, if not all, of the telephone wires located in and about the premises known as 2017 Pacific avenue, the place which was raided. Upon complaint to the respondent herein, made by law enforcement officials, the respondent's agents or servants later disconnected and removed the telephone located in the kitchen of the restaurant premises at 2019 Pacific avenue. It is this telephone service the complainant desires restored.

There is no clear or convincing proof that the telephone located in the restaurant premises or any wires connected therewith were ever used illegally, but it is clear to us that the company was wholly justified in its action in causing the discontinuance of telephone service and in the removal of the instruments. It acted in good faith to assist law enforcement officers in efforts to prevent possible violations of law. The company's right to rely on such representations of officers of the law is clear. It did not act arbitrarily or unjustly as claimed.

[2] We now come to a consideration of the second question, and that relates to the refusal of the company to restore telephone service in the restaurant premises at 2019 Pacific avenue.

In this connection we are mindful of the burden cast upon the company, not only to coöperate with all officially recognized law enforcement agencies, but also to make certain that it does not become placed in a position where it inadvertently acquiesces to the illegal use of its facilities and service. We have upheld the position of the company in a strict enforcement of the conditions of its filed tariffs under such circumstances and will continue to do so. We are thus constrained to find that the company was justified in its refusal to restore service at the time that demand therefor was made.

The company's position in this regard was supported not only by the original request of the law officers to disconnect service, but also by a letter in evidence in this proceeding, sent to company's counsel by the deputy attorney general in charge of the aforementioned raid. This communication was a reply to an inquiry made by counsel for the company to ascertain whether there was any present objection to a reinstatement of telephone service. The substance of the reply was that recent inspections had been made by investigators employed by the state of New Jersey and, considering the nature of their report, a consent to the reëstablishment of telephone service would not be forthcoming. These investigators appeared and testified at the hearing and gave as their opinion that the nature of the physical construction of the rear portion of the restaurant premises made it appear "suspicious that bookmaking was going on."

[3] The remaining question, there-

fore, is whether telephone service should now or in the future be restored to the complainant for the restaurant premises known as Luigi's or whether our judgment should hold that the complainant's request for telephone service there should be further denied. In our conclusion on this question we are moved by the following facts and circumstances.

We do not think our decision should turn upon the alleged suspicious appearance of the construction of the building.

Complainant now and for several years last past has enjoyed the use of a telephone at his residence premises and there is no evidence of any complaint with respect to the use of that service and no recommendation or attempt was made to discontinue his use thereof.

[4, 5] Complainant introduced in evidence a letter dated September 20, 1948, addressed to this Board over the signature of the assistant director of public safety of Atlantic City, New Jersey, which reads as follows:

"This department has no objection to restoration of telephone service for business purposes on the premises located at 2019 Pacific avenue, Atlantic City, N. J., which is known as Luigi's Restaurant, said business being operated by Mr. Jack Berenato, proprietor."

The action of the court with respect to the previous conduct of the complainant dealing with the violations of law on premises other than the premises in question is such that complainant has not been barred from society but is on probation for a term to test his future conduct. It is evidential that the court has given to this complainant an opportunity to rehabilitate himself.

Under all these circumstances we do not feel that this Board should interfere with the complete opportunity thus afforded to the complainant to conduct and pursue his legitimate business enterprise and, in view of the recommendation of the local police authorities, we believe the complainant is entitled to telephone service under the conditions and limitations as will hereafter appear.

The Board therefore finds and determines:

1. That the complainant is entitled to be afforded telephone service at Luigi's Restaurant, 2019 Pacific avenue, Atlantic City, New Jersey.

2. That, because war-time conditions have caused serious shortages in telephone equipment and full facilities are not yet available to all applicants for service, the complainant's request for service shall be treated as a new application and placed by the Atlantic City District Office on the list of applications for new subscribers as of the date of this order.

3. That, as a precautionary measure, in view of the complainant's previous conduct, the telephone equipment when installed shall be located in such a manner that the service and facilities remain in the front portion of the restaurant premises, and in open and unobstructed view to the patrons of the restaurant.

NEW JERSEY DEPARTMENT OF PUBLIC UTILITIES

G. Russell Walsh

v.

New Jersey Bell Telephone Company

Docket No. 3793
October 27, 1948

MOTION *by telephone company to dismiss subscriber's petition for refund for period of strike; granted.*

Reparation, § 11 — Commission authority — Judicial matter.

1. The Commission does not have authority to require reparation or refund, since such matters are the concern of the courts, p. 6.

Reparation, § 35 — Telephone charges — Limitation on toll service during strike.

2. No refund is due a telephone subscriber, on his bill for local exchange service, for the toll or time-of-day service denied him during a strike, since the applicability of the charge for exchange service is not dependent upon the rendering of these other services, p. 6.

APPEARANCES: G. Russell Walsh, pro se; A. J. Bittig, for New Jersey Bell Telephone Company.

By the COMMISSION: This matter comes before the Board on complaint of G. Russell Walsh (complainant) of 111 North New Hampshire avenue, Atlantic City, New Jersey, who prays for an order compelling the New Jersey Bell Telephone Company (respondent) to refund an amount equal to two-thirds of the bill for local exchange service paid by him and other subscribers connected to dial offices during the period when the company's employees were on strike in the spring of 1947. While complainant seeks relief on his own behalf as well as on behalf of unidentified other subscribers, he admits that he was not specifically authorized by any other subscriber to bring this action in a representative capacity.

The complainant in support of his claim for a refund asserts that during the strike, he did not receive normal service, alleging more specifically that the use of his telephone was either partially or totally restricted for the making of toll or long-distance calls, time-of-day calls, and information calls. Complainant does not charge any restriction of the use of his telephone in connection with the placing of calls in the Atlantic City local calling area.

In its answer to the complainant, the company takes the position that the complainant is not entitled to a refund of any part of the monthly charge for the local exchange service because there was no restriction of

service in the Atlantic City local area and because telephone messages to points outside said Atlantic City area, when and if made, are billed as toll calls.

[1] A hearing was held in this matter on July 21, 1948. At the outset of the hearing, the company moved for the dismissal of the complaint principally on jurisdictional grounds. Asserting that the Board lacks jurisdiction to compel the refund prayed for even if the complaint were found to be meritorious, the company argued that it would serve no useful purpose to proceed on the merits. Ruling on this motion was reserved and the hearing proceeded on the merits. The statute setting up this Board does not give the Board authority to require that reparation or a refund be made under the circumstances of this complaint and application. The statute rests reparation and refund solely with the courts.

The subject matter of the complaint and application affects large numbers of subscribers alike. At issue are questions pertaining to the service subscribers are entitled to receive for the monthly local exchange charge and whether said local exchange service was reasonably performed during the period covered by the complaint.

Therefore the Board notwithstanding its lack of power to require reparation or refund to be made has considered the facts bearing upon, and the merits of, the issues involved, under its powers of investigation.

[2] During the period covered by the claim for refund, the complainant at his home in Atlantic City was furnished individual line restricted area flat rate residence service. At that time, this class of exchange service entitled the customer to make an unlimited number of local calls within the Atlantic City exchange area for a monthly charge of $4. It is undisputed that the complainant received normal local service during this period. Complainant, however, questions applicability of the full monthly local exchange charge during periods when toll and time-of-day calls were restricted and when, pursuant to his allegations, information service was not furnished. The term "exchange service" is defined in the filed tariff as follows: "The term used to designate the service under which a subscriber is permitted to send messages from his telephone station to stations within a specified area without the payment of a toll charge."

There is nothing in this definition which carries with it any indication that the applicability of a monthly charge for exchange service is dependent upon the rendering of toll or time-of-day service. The filed tariff provides for specific charges as and when toll and time-of-day calls are made. As to the rendering of information service during the strike, the testimony indicates that this service was available albeit subject to some delay during peak traffic periods. The complainant did not offer in evidence any specific instance of failure to receive this service.

In view of the foregoing, the Board finds and determines that the complaint herein should be and it is *hereby dismissed*.

Bernard M. Shotkin, Trustee, Doing Business under Name of "Power & Light Company"

v.

Mountain States Telephone & Telegraph Company

Decision No. 30878, Case No. 4972
July 21, 1948

PETITION *for rehearing of Commission decision denying order, in (1948) 74 PUR NS 99, requiring certain listing in telephone directory; rehearing denied.*

Commissions, § 47 — Quorum and voting — Signing of order.

1. The Commission did not err in having an order signed by all three Commissioners, although only two of these three participated in the hearing, p. 9.

Service, § 434 — Telephone directories — Misleading listings.

2. A telephone company, in the public interest, must exercise its discretion in accepting directory listings and should not knowingly become a party to or allow misleading listings or advertising, p. 9.

Service, § 107 — Jurisdiction of Commission — Telephone directory listings.

3. The Commission cannot interfere with a telephone company's action in accepting or refusing directory listings unless its action is arbitrary, p. 9.

By the COMMISSION: By Decision No. 30543, dated May 26, 1948, 74 PUR NS 99, the Commission denied plaintiff's complaint against the defendants praying for an order requiring the defendants to list the name "Power & Light Company, 1110–1112 Seventeenth Street, Denver, Colorado," in defendants' telephone directory. Said order provided that it should become effective twenty days from the date of said order.

On June 18, 1948, plaintiff filed herein his petition for rehearing, wherein he assigns numerous alleged errors of the Commission as grounds for rehearing.

Among other things, plaintiff complains because the order was signed by Malcom Erickson, a Commissioner who did not formally participate in the hearing. The hearing was held by Commissioners Horton and Barry, to whom it was assigned for hearing.

Upon review of the testimony and record, the three Commissioners joined in the order. In any event, two Commissioners who signed the order, a majority of the Board, participated in the hearing.

Plaintiff is somewhat inconsistent, in that he complains that the Commission, in effect, erroneously stated that listing in the classified directory was sought in order to "get people into plaintiff's place of business," while in other alleged assignments of error, he complains that he has spent thousands of dollars in advertising the name "Edison Power & Light," and that people familiar with the name "Edison Power & Light" should be able to look in the directory and find his company, and recognize it as "Edison Power & Light Company," although it would be listed as "Power & Light Company," because he, plaintiff, has deleted the word "Edison" therefrom (under the direction of the court, following litigation over the alleged improper use of the word "Edison" in connection with "Power & Light").

Again, after filing his complaint with the Commission for relief, he complains in paragraph 9 of the application for rehearing that the Commission erred and abused its discretion "in taking jurisdiction of this case." If his last position is correct, and he has not waived his right to raise the question, our order doesn't mean anything, and he is not in a position to complain.

Section 46 of the Public Utilities Act, as amended by Session Laws of 1945, provides "Unless otherwise provided in this law, all orders of the Commission shall become effective upon a day to be fixed by the Commission in any such order."

Section 45 of the act, as amended by Session Laws of 1945, provides for service of the order "by mailing in a sealed envelope addressed to the person, firm, or corporation to be served, with sufficient postage prepaid to carry same to its destination by ordinary mail. In all cases wherein service is obtained by mail by the Commission, the certificate of the secretary of the Commission of such mailing shall be prima facie evidence that service has been obtained and the time fixed in any order or notice shall commence to run from the date of mailing, as shown in such certificate."

The order was dated May 26, 1948, *supra.* It provided: "This order shall become effective twenty days from date."

The secretary of the Commission certified that order was served by mail and his certificate shows that copy thereof was mailed to plaintiff, Bernard M. Shotkin, trustee, doing business as "Power & Light Co.," 1110 17th street, Denver, Colorado, on May 26, 1948, that being the address of plaintiff set forth in the body of the complaint.

Section 51 of the act provides that any party to the action "may apply for rehearing in respect to any matters determined in said action or proceeding and specified in the application for rehearing," also: "No cause of action arising out of any order or decision of the Commission shall accrue in any court to any corporation or person unless such corporation or person shall have made, *before the effective date of said order* or decision,

application to the Commission for a rehearing."

The order became effective on July 16, 1948. The petition for review was filed on July 18, 1948, after the order became effective. It was served, according to plaintiff's certificate attached to the petition, upon defendant's attorney, J. H. Shepherd, by mailing copy thereof to him at room 1300, 931 14th street, Denver, Colorado, on July 17, 1948.

[1-3] While the act, in terms, apparently does not provide that the Commission cannot pass upon an application for rehearing not filed before the effective date of the order, it does provide that a Commission order denying the application for rehearing cannot be reviewed by the district court upon application of party filing the petition for rehearing.

Bearing this in mind, the Commission has carefully examined each alleged assignment of error, and has reviewed the testimony and record, with care, and is of the opinion that no error was committed, and that in view of the record and the matters and things which were established, as well as the matters and things which plaintiff failed to establish, said application for rehearing cannot be granted. The Commission is still of the opinion that the telephone company, in the public interest, must exercise its discretion in the accepting of listings therein, and should not, knowingly, become a party to or allow misleading listing or advertising. Unless its action is arbitrary, we cannot interfere. There was no evidence that plaintiff, in the ordinarily accepted meaning of the term or business, was engaged in the "power and light" business. In this respect, he is in the same position as he found himself in when he sought to capitalize on the name "Edison."

The Commission finds: That no error was committed in the entry of its said Decision No. 30543; that no useful purpose would be served by granting a rehearing herein, and that said application for rehearing should be denied.

UNITED STATES DISTRICT COURT, ALASKA,
FIRST DIVISION, JUNEAU

John M. Pichotta

v.

City of Skagway et al.

No. 5767-A
78 F Supp 999
July 27, 1948

ACTION *by electric utility to enjoin city from enforcing ordinance establishing rates; injunction granted.*

Injunction, § 52 — Judicial authority — Findings relative to electric rates.

1. The court, in an action by a utility to enjoin a city from enforcing an ordinance establishing light and power rates on the ground that the rates are unfair and unreasonable under local law and are confiscatory under the Federal Constitution, is not bound by the findings of the city but may determine the issue upon its own record and the evidence adduced before it, even though it had not been presented to the municipal regulatory body, p. 14.

Orders, § 5 — Presumption of validity.

2. Orders of a regulatory body are presumptively valid, reasonable, and correct, p. 14.

Return, § 63 — Confiscation — Burden of proof.

3. The burden of proof on the issue of confiscatory rates is on the one raising it, and nothing less than clear and convincing proof will justify judicial interference, p. 14.

Appeal and review, § 15 — Scope of judicial review.

4. The court cannot substitute its judgment for that of the authority whose action is under review upon a question as to which there is room for a difference of intelligent opinion, p. 14.

Return, § 6 — Basis — Meaning of term "invested capital."

5. The term "invested capital," in a statute requiring a municipality to fix public utility rates which provide a reasonable return on invested capital, does not mean fair value or the amount paid by a subsequent purchaser, p. 15.

Valuation, § 290 — Allowance for working capital — Effect of rising prices.

6. A public utility should be allowed a greater working capital and reserve for capital expenditures in a period of rising prices, p. 16.

Return, § 16 — Right to earn — Efficiency factor.

7. All a utility is entitled to is a reasonable return on its net capital investment as represented by property actually used and useful in the public service, and then provided that its operation is efficient and economical, p. 16.

Valuation, § 249 — Donated property — Additions to plant by government.

8. Gratuitous contributions to utility capital by improvements made to its plant by the government at taxpayers' expense during a wartime lease of the property may not be included in the rate base, p. 16.

Valuation, § 67 — Original cost — Uncompensated labor of utility owner.

9. An amount representing uncompensated labor performed by the owner of a utility and his wife may not be included in the rate base where this labor was not capitalized and was not segregated, so that it is impossible to tell from the records what part of it is properly chargeable to capital account, p. 17.

Valuation, § 202 — Original cost — Replaced property.

10. Exclusion from the rate base of the original cost of a rival utility which had been purchased and absorbed is not improper where neither the original cost of the utility nor that part of its facilities which were retained after consolidation were ever capitalized by the purchaser and where the cost of replacements is charged to operating costs, so that whatever remains of the original cost was completely wiped out long before a valuation was made, p. 17.

Valuation, § 122 — Allowance for maintenance.

11. Where the cost of maintenance of a utility's assets is treated as a business expense, there is no capital investment as respects the rate base, p. 17.

Depreciation, § 14 — Cost basis.

12. Depreciation should be based on cost rather than value in fixing a light and power company's rate base, p. 18.

Valuation, § 2 — Statute conferring powers on municipality.

13. A statute empowering a municipality to establish a rate base for a light and power company is not invalid as conferring retroactive regulatory powers of quasi judicial powers on the city in regard to investments made by the utility before the statute went into effect, particularly where the municipality considered only depreciation actually taken by the utility in the past, p. 18.

Valuation, § 68 — Meaning of invested capital.

14. The term "invested capital" as used in a statute empowering a city to fix utility rates which yield a reasonable return on invested capital means the initial investment, regardless of subsequent changes in ownership, plus capital additions and minus accrued depreciation, p. 18.

Expenses, § 12 — Amortization of nonrecurrent expenses.

15. The action of a city, empowered by statute to fix utility rates, in amortizing nonrecurring operating expenses over a 5-year period is not improper, p. 18.

Expenses, § 49 — Pension payments.

16. A utility is not entitled to charge off a pension payment as operating expenses unless the payment is shown to be in pursuance of a pension system regularly established, p. 18.

Injunction, § 52 — Evidence — Rate proceeding — Operating expenses for subsequent year.

17. A report showing a utility's operating revenue for a year subsequent to the filing of a complaint in an action to enjoin a city from enforcing an

ordinance establishing rates which are allegedly unfair, unreasonable, and confiscatory is not inadmissible in the absence of proof that a request for an inspection of the utility's books was denied, p. 20.

Revenues, § 1 — Measure of earnings and expenses.

18. The earnings and expenses of a utility must be measured by operations over several years rather than those of a particular year in establishing rates, p. 22.

Return, § 51 — Confiscation — Operation at a loss.

19. Where utility rates are not sufficient to meet operating expenses, there is not merely an incidental diminution in value of utility property, such as would be unavoidable upon any exertion of police power to fix rates which diminished income, but a confiscation in the constitutional sense, p. 22.

APPEARANCES: Faulkner, Banfield & Boochever, of Juneau, Alaska, for plaintiff; Howard D. Stabler, of Juneau, Alaska, for defendants.

FOLTA, D. J.: This is an action brought by plaintiff who, in the name of the Skagway Public Service Company, operates a public utility consisting of the light and power plant and distribution system leased from the Home Power Company, to enjoin the city of Skagway from enforcing an ordinance, effective October 1, 1947, on the ground that the rates fixed are unfair and unreasonable under local law and confiscatory under the Constitution of the United States.

Pending determination of the suit the defendant was restrained from enforcing the ordinance and the excess paid by consumers over the old rates ordered impounded.

Before enacting the ordinance referred to, the city council held hearings in conformity with the provisions of §§ 2402, 2403, CLA1933, at which the plaintiff was present and accorded adequate opportunity to present his case, and found that, as of December 31, 1946, the capital invested in the utility, less accrued depreciation and plus a working capital of $3,500 and an allowance of $5,434.96 for materials and supplies, was $41,700, which it adopted as the rate base. It further found that a return of 7 per cent on this rate base, yielding $2,919 a year, was fair and reasonable. Then, using the plaintiff's report to the city of his operations for the calendar year 1946, the city found that, after allowing for an estimated loss of revenue under the new rates of $2,500 a year, and a further estimated loss of $5,000 by reason of the removal of a large consumer from Skagway, future revenue would exceed expenses by more than $3,200 a year. At the final hearing before the city council the plaintiff, while expressing some doubt as to the sufficiency of the amount allowed for operating expenses, declared that he was satisfied with the new rate schedule and was convinced that the resultant decrease in revenue would be offset within a year by increased consumption of electricity.

The findings of the council are recited in the ordinance. Among other things, the ordinance provides that the plaintiff may petition the council for modification of, or change in, the rates and charges if they should become, or appear to be, unreasonable or

such as not to permit a fair and reasonable return on its invested capital. Several months later the plaintiff's petition for an increase in the rates was denied by the city, and upon the plaintiff's threat to discontinue service the city obtained an order restraining him from doing so.

At the trial in June, 1948, it was shown on behalf of the city that, after revising plaintiff's report to the city for the calendar year 1947 to conform to the accounting practices prescribed by the Federal Power Commission for public utilities, operating costs were $45,499.12, as against operating costs of $55,795.79 and an operating revenue of $51,309.08 reported by the plaintiff. The difference between operating costs, as found by the city, and the revenue reported by plaintiff, which was accepted as correct, would more than suffice to meet the estimated loss of revenue of $2,500 and yield the return fixed by the city at $2,919. The council found that, although the original cost of the plants of the Northwest Light & Power Company and the White Pass & Yukon Route is no longer ascertainable from the inadequate records in existence, the properties had been fully depreciated long before they had been acquired by the plaintiff, and that as of December 31, 1946, according to plaintiff's records, the invested capital of the Home Power Company, less accrued depreciation actually taken, was $4,611.79, while that of the Skagway Public Service Company was $28,153.25. In fixing the rate base the city treated the terms "original cost" and "invested capital" as convertible.

Plaintiff now contends that not only is the revenue inadequate to pay operating costs under the new rate schedule but that the principal component of the rate base should be the present fair value of the utility rather than the net original cost of the property when first devoted to the public service or the net capital investment. The correctness of the rate base formula used by the city and of the estimates of probable future operating revenue and costs in the face of rising prices, as well as the revision thereof by the defendant in conformity with the Federal Power Commission standards, are challenged by the plaintiff.

The evidence discloses that before 1909 the city of Skagway was served by the Northwest Light & Power Company and the White Pass & Yukon Route; that in 1909 the Home Power Company acquired the property of the former for $15,000 and leased the distribution system of the latter for the consideration of one dollar a year and the maintenance of the system in substantially the same condition as when leased. There was some testimony from which it could be inferred that a special low rate, which defendant contends violates § 2412, CLA1933, prohibiting discriminatory practices on the part of public utilities which the new rate schedule adopted by the ordinance was designed to correct, was also a consideration.

In 1933 the plaintiff leased the Home Power Company properties and has ever since operated them in the name of the Skagway Public Service Company. Under a contemporaneous agreement and as a part of the lease transaction, plaintiff undertook to buy and has since bought 88.2 per cent of the capital stock of the Home Power Company, but neither this agreement

nor the lease provides for the sale of the properties of the Home Power Company, and at the time of the trial plaintiff was still operating under the lease while the franchises were held by the immediate predecessors of the Home Power Company.

[1] The first question raised is whether this court is bound by the findings of the city, if supported by substantial evidence. If so, the court would necessarily be limited to a consideration of the evidence presented before the council. There is no statutory provision for appeals from rate orders, but it appears to be settled that, where, as here, a constitutional right is involved, the court may determine the issue upon its own record and the evidence adduced before it, even though it had not been presented to the regulatory body. Atlantic Coast Line R. Co. v. Public Service Commission (1948) 76 PUR NS —, 77 F Supp 675; Baltimore & O. R. Co. v. United States (1936) 298 US 349, 368, 369, 80 L ed 1209, 56 S Ct 797; Prendergast v. New York Teleph. Co. 262 US 43, 50, 67 L ed 853, PUR 1923C 719, 43 S Ct 466; Cromwell v. Benson (1932) 285 US 22, 60, 76 L ed 598, 52 S Ct 285; Knoxville v. Knoxville Water Co. (1909) 212 US 1, 8, 53 L ed 371, 29 S Ct 148. This procedure would appear to be proper and in any event necessitated by the lack of anything but a meager and fragmentary record of the proceeding before the council. Accordingly, the trial was essentially de novo in character, and the evidence produced related to the actual operations of the utility to the end of May, 1948, coupled with forecasts and prophecies as to future revenues and expenses.

[2–4] In its consideration of the mass of evidence produced, the court is aided by well-settled rules governing litigation of this kind, namely: (1) That the orders of a regulatory body are presumptively valid, reasonable and correct, Des Moines Gas Co. v. Des Moines, 238 US 153, 163, 59 L ed 1244, PUR1915D 577, 35 S Ct 811; Union Dry Goods Co. v. Georgia Pub. Service Corp. 248 US 372, 374, 63 L ed 309, PUR1919C 60, 39 S Ct 117, 9 ALR 1420; (2) that the burden of proof on the issue of confiscation is on the one raising it, and that nothing less than clear and convincing proof will justify judicial interference, Willcox v. Consolidated Gas Co. (1909) 212 US 19, 41, 53 L ed 382, 29 S Ct 192, 48 LRA NS 1134, 15 Ann Cas 1034; Knoxville v. Knoxville Water Co. (1909) 212 US 1, 8, 16, 18, 53 L ed 371, 29 S Ct 148; San Diego Land & Town Co. v. National City (1899) 174 US 739, 750, 754, 43 L ed 1154, 19 S Ct 804; Lindheimer v. Illinois Bell Teleph. Co. (1934) 292 US 151, 169, 78 L ed 1182, 3 PUR NS 337, 54 S Ct 658; Federal Power Commission v. Hope Nat. Gas Co. (1944) 320 US 591, 602, 88 L ed 333, 51 PUR NS 193, 64 S Ct 281; (3) that the court cannot substitute its judgment for that of the authority whose action is under review upon a question as to which there is room for a difference of intelligent opinion, St. Joseph Stock Yards Co. v. United States (1936) 298 US 38, 51, 80 L ed 1033, 14 PUR NS 397, 56 S Ct 720; San Diego Land & Town Co. v. National City, *supra.*

Rate Base

[5] Section 2383, CLA1933, provides that municipalities shall have the power:

"To regulate, fix, and establish and from time to time change, as they shall deem fit and proper, all rates and charges that may be charged for services rendered to the municipalities or to the inhabitants thereof by any public service association, corporation or individual, including the right to regulate and provide what shall be a reasonable deposit for meters and security for service to be rendered, and to provide that interest be paid on such deposit; provided that all rates, charges, and regulations shall be reasonable, and such as to permit a fair and reasonable return by way of interest or dividends on invested capital."

As already shown, the city treated the terms "invested capital" and "original cost" as synonymous in fixing the rate base at $41,700. Plaintiff contends not only that the original cost or invested capital is much greater than that found by the council but also that the term "invested capital" should be construed to mean fair value, and argues that any utility should have the benefit of any appreciation in value and that in any event the term should not be limited to the capital invested in the first instance but should be construed to mean that which is paid for a utility by any subsequent purchaser.

The fair value doctrine established by Smyth v. Ames (1898) 169 US 466, 42 L ed 819, 18 S Ct 418, was recognized as being in general ill repute, and finally abandoned, in Federal Power Commission v. Hope Nat. Gas Co. *supra,* 320 US at p 648, 51 PUR NS at p 227, under a statute which, unlike that here involved, did not even require that invested capital or original cost be used as the rate base. For a critique on the fair value doctrine see Justice Brandeis' dissenting opinion in Missouri ex rel. Southwestern Bell Teleph. Co. v. Public Service Commission, 262 US 276, 289–312, 67 L ed 981, PUR1923C 193, 43 S Ct 544, 31 ALR 807. The adoption of his views twenty-two years later in Federal Power Commission v. Hope Nat. Gas Co. *supra,* was forecast by the attack on the doctrine in Federal Power Commission v. Natural Gas Pipeline Co. (1942) 315 US 575, 604–606, 86 L ed 1037, 42 PUR NS 129, 62 S Ct 736, and the trend now seems to be toward the acceptance of the original cost or net investment rate base and away from the complexities of the fair value doctrine and the endless controversy which it engenders. The argument that appreciated value should be added to the capital invested is therefore merely an argument for the fair value doctrine. The appreciation in value represents no additional capital investment, and it is manifest that, if the utility were operated by defendant, no appreciation in value would have any effect on the rates. Clearly, the consumer should not be required to pay more for the service merely because the utility is privately operated.

There is much plausibility in plaintiff's argument that the capital referred to in the statute should not be limited to that of the initial investor but should be construed to mean the capital invested by the last purchaser, and such a construction might be permis-

sible under the statute to avoid hardship in a case where the change of ownership was bona fide and not merely colorable for the purpose of increasing the rate base. But it should be noted that this argument is likewise applicable to original cost, which is defined by the Federal Power Commission to be the cost of the property to the person who first devotes it to the public service, regardless of the number of times the utility has changed hands. This may seem to be a harsh rule, but it would appear to be necessary to avoid a conversion of original cost into fair value, which would certainly follow in view of the fact that the sale price of any property usually approximates fair value or is arrived at by capitalizing the earnings. The purchase by plaintiff of 88.2 per cent of the capital stock of the Home Power Company is a case in point. In arriving at the purchase price he testified that he was influenced by the earnings and the cash surplus of $72,000.

Manifestly, there would be no stability to rate bases, and the order of any regulatory body fixing a rate base could be circumvented by the mere device of successive changes in ownership. It was undoubtedly the recognition of this danger that led the Federal Power Commission to adopt the rule referred to and, while the rules and practices of that body are not binding on this court, the court takes judicial knowledge of the fact that the Commission is composed of experts on utility regulation whose judgment is entitled to great weight.

[6] The point made by plaintiff, that the rate base is inadequate to yield a fair return at the rate allowed because of the decrease in the purchasing power of the dollar, may be answered by directing attention to the fact that interest rates are determined by the supply of money rather than by the commodity price level. Undoubtedly, however, a public utility should be allowed a correspondingly greater working capital and reserve for capital expenditures in a period of rising prices.

[7] Plaintiff's argument with reference to the foregoing matters would have much force if he were engaged in private business, but he is a public servant, a substitute for the state. He has a monopoly and is secure against competition. All he is entitled to is a reasonable return on his net capital investment, represented by property actually used and useful in the public service, and then only provided that his operation is efficient and economical. There is nothing unfair in this. Sooner or later every municipality is faced with the duty of making a choice of two courses—to provide essential services to its inhabitants or delegate that function to private operation. If it chooses the latter, it has a right to expect that the service will cost little, if any, more than if it chose the first course. Manifestly, this object cannot be attained unless the return is confined either to original cost or invested capital, as distinguished from fair value which is usually several times greater.

[8] Plaintiff also contends that there should be included in the rate base $39,973 expended by the Army in rehabilitating plaintiff's system during the one year of the recent war that the Army operated the utility under a lease. For these additions, upon

termination of the lease, plaintiff paid the Army $4,800, which was included in the rate base. It is argued that these additions come within original cost as defined by the Federal Power Commission. Literally construed, this is true, but clearly the rule was never intended to embrace a gratuitous contribution to capital made at the taxpayers' expense. Moreover, in making these additions the Army was undoubtedly motivated primarily by military considerations, and expense was no object.

[9] Finally, plaintiff contends that there should be included in the rate base $38,000, representing uncompensated labor performed by himself and his wife. Not only was this labor not capitalized but there was no segregation of it, so that it is impossible to tell from his records what part of it was properly chargeable to capital account.

[10, 11] The failure of the city to include in the rate base the original cost of the public utility operated by the White Pass & Yukon Route, alleged to have been $17,500 at the time it was leased by plaintiff's predecessor, the Home Power Company, is also urged as error. It will be recalled that there were two rival public utilities in Skagway, the Northwest Light & Power Company and the White Pass & Yukon Route, until 1909 when the Home Power Company purchased the properties of the former for $15,000 and leased those of the latter for a yearly rental of one dollar, and in consideration of a special rate for current and the maintenance of the properties in the condition in which they were when leased. It is but reasonable to presume that when the Home Power Company acquired these properties there was a considerable duplication of facilities requiring the elimination of some in the ensuing consolidation. Obviously, the property eliminated upon consolidation was neither used nor useful in the public service and, hence, would not be includible in the rate base. What the original cost was of the part that was retained cannot now be determined, but manifestly it was not $17,500, less accrued depreciation, but something considerably less. But neither the original cost of the White Pass & Yukon Route nor the part retained was ever capitalized by the Home Power Company, and there was no necessity for doing so because ever since 1909 the cost of replacements was charged to operating costs. Naturally under this arrangement subsequent additions by the Home Power Company were not capitalized, so that whatever remained of original cost was ultimately wiped out long before plaintiff leased the utility from the Home Power Company in 1933. Under such a practice, which has been continued by the plaintiff, it is not surprising that nothing remained of original cost in 1947 to include in the rate base for, where the parties agree that the cost of maintenance of an asset should be treated as a current business expense, there is no capital investment. Peerless Stages v. Commissioner of Internal Revenue (1942) 125 F2d 869, 871. Not until plaintiff discontinues charging replacements to operating cost can he properly begin to capitalize replacements made thereafter in the property of the White Pass & Yukon Route. Detroit Edison Co. v. Commissioner of Internal Revenue (1942) 131 F2d 619, 622. The city found that the capital in-

vested in the White Pass & Yukon Route had been fully recouped from earnings long before plaintiff acquired the property, and that there was nothing to include in the rate base. In this the court cannot say the council erred.

[12] Plaintiff further contends that depreciation should be allowed on the basis of value rather than on cost, as held in United R. & Electric Co. v. West, 280 US 234, 74 L ed 390, PUR1930A 225, 50 S Ct 123, but this doctrine was overruled in Federal Power Commission v. Hope Nat. Gas Co. (1944) 320 US 591, 606, 88 L ed 333, 51 PUR NS 193, 64 S Ct 281.

[13] The circumstance, that the investment was made or cost incurred before the statute authorizing regulation went into effect in 1923, would seem to be wholly irrelevant. No one has a right to assume that the law will remain unchanged. Likewise, the absence of rules prescribing a depreciation schedule, etc., is irrelevant where the regulatory body, as here, takes into consideration only the depreciation actually taken by the utility in the past. This is neither retroactive regulation nor the exercise of quasi-judicial powers.

[14] Careful search on the part of counsel and court for judicial authority on the meaning of invested capital, as used in statutes governing the regulation of public utilities, has been fruitless. Manifestly, capital invested would equal the original cost except upon a subsequent sale of the public utility for a greater price than the original investment. But for the reasons already stated the court holds that invested capital, as used in Paragraph 10 of § 2383, CLA1933, means the initial investment, regardless of subsequent changes in ownership, plus capital additions and minus accrued depreciation. It follows that the action of the city in treating the term invested capital as synonymous with orginal cost is not incorrect.

I conclude, therefore, that the plaintiff has failed to show that the rate base adopted by the defendant is such as to preclude a fair and reasonable return on the capital invested.

Operating costs

[15, 16] The crucial question in this controversy, however, is whether the rates will produce sufficient revenue to meet operating costs. Defendant argues that, since the plaintiff is authorized under the ordinance to apply for relief at any time and required to make a report of operations in detail at the end of each calendar year, it is immaterial that the new rates may prove insufficient at some time in the future. To this the plaintiff replies that the picture has changed materially since December 31, 1946, and in support of his assertion that expenses now exceed revenue, points to his reports for the calendar year 1947 and for the year ended June 30, 1948, which on their faces show substantial deficits.

Plaintiff's Exhibit No. 13 shows a deficit of $3,827.44 under the old rates for the calendar year 1947. As analyzed and revised by the defendant in its Exhibit M, however, the deficit is converted into a surplus of $371.29. The defendant does not question the revenue reported by plaintiff of $51,309.08, but makes certain deductions from operating expenses reported as

$55,136.52. Thus defendant amortized over five years expenses listed on page 2 of its Exhibit M, amounting to $2,990.28 because, it asserts, they are nonrecurring. Perhaps it would be more accurate to describe them as expenses that do not recur annually. I find that the plaintiff has failed to show that this amortization and deduction of $2,392 from operating expenses are improper. Defendant further amortized, over a 3-year period, expenses amounting to $2,072.13, listed on page 3 of Exhibit M as extraordinary powerhouse repairs, resulting in a deduction of $1,401.10. I likewise find that plaintiff has failed to sustain the burden as to this item. The same finding is made as to the item of $970 (less $75 which was erroneously deducted by defendant), and the item of $3,060, paid to the Home Power Company as rental, both of which were improperly charged to operating cost. I agree with the defendant that the payment of what has been referred to as a pension to one of plaintiff's employees, should not be at the consumers' expense, unless it is shown to be in pursuance of a pension system regularly established. Plaintiff asserts that the employee performs essential services, but his designation of him as "pensioner" would seem to refute this. The choice of language employed, with all its connotations, is the plaintiff's, and he should be bound by it. Defendant, however, has deducted this item, amounting to $1,682, only in connection with the finding that this employee could in any event be dispensed with if the powerhouse were placed on a 40-hour week basis to obviate the payment of overtime. From the depreciation claimed by the plaintiff in the amount of $2,846, defendant has deducted $901.30 on several grounds, one of which is that the rates charged as to Caterpillar diesel motors were excessive. The testimony of defendant's witness on this point, however, cannot be reconciled with its revision in Exhibit M. The witness Stuart testified that he changed the rate of depreciation on diesel motors from 10 per cent to 5 per cent, and that the diesel motor designated in Plaintiff's Exhibit 13 as "old cat" be charged off as fully depreciated in January, 1948, whereas plaintiff had charged it off in 1947, which resulted in a depreciation charge of $126 as against plaintiff's charge of $749.03, that he decreased the depreciation on the "G. M. Diesel" from $545.43 to $272.71, and on the "new cat" from $669.49 to $334.75, and on what is listed as "diesel unit" from $100 to $50; but the sum of these is not the amount deducted nor is the matter clarified by his testimony that he delayed charging depreciation on what the defendant has constructed or bought in 1947 to 1948.

Plaintiff testified that the rates of depreciation of the diesel motors referred to were in accordance with the recommendations of the manufacturer, and in this he was corroborated by the witness Whitehead, Branch Manager of the Northern Commercial Company, which sells and services Caterpillar diesels for the district which includes Skagway. This witness further testified that the service life of such motors is eight to ten years if they are run continuously and that their life is not prolonged even where, as here, the motors are operated only six months of the year, because, due

to the inferior fuel now furnished, corrosion during nonuse is sufficient to offset any saving in wear.

It is difficult to see any justification for postponing depreciation, as was done by the witness Stuart. I am constrained to hold that the plaintiff has sustained the burden of showing that the reduction in the rates of depreciation and postponing the taking of depreciation were improper. As thus revised, operating expenses would be $48,420.12, subject to a further revision of the item allowed for income tax of $613, leaving but $2,888.96 to meet the loss of revenue under the new rates estimated at $2,500 and the return of $2,919 on the capital invested.

[17] Plaintiff's Exhibit No. 2 is a report for the year ended June 30, 1948, showing operating revenue (actual for eleven months and estimated for June) of $46,551.46 under the old rates, which was computed to be $43,329.92 under the new rates or a decrease of $3,221.54 under the new rates; and operating expenses, as corrected by the elimination of the item of $400, of $46,859.47, with a resultant estimated deficit under the new rates of $3,529.08, before any return on invested capital.

Defendant strenuously objected to the introduction of Exhibit No. 2 on the ground of surprise, lack of opportunity to examine and analyze it or to compare it with plaintiff's records for the purpose of verification. Ordinarily evidence of occurrences subsequent to the filing of the complaint is inadmissible, but the exclusion of such evidence in an identical situation dealt with by the court in Knoxville v. Knoxville Water Co. (1909) 212 US 1, 14, 15, 53 L ed 371, 29 S Ct 148 was held to be error. This would seem to dispose of so much of defendant's objection as is predicated on the circumstance that the evidence relates to operations subsequent to those for the calendar year 1947 on which defendant acted in passing the rate ordinance. Incidentally, it should be noted that no supplemental pleading has been filed by the plaintiff. On the other hand, defendant could have demanded a further report from plaintiff of its operations, and in any event should have anticipated that plaintiff would introduce evidence as to earnings and expenses up to a short time before the trial. In the absence of proof that a request for an inspection of the plaintiff's books was denied, defendant's objection to this evidence must be overruled on the authority of the case just cited.

Plaintiff, however, is in error in assuming that computing revenue and expenses at the new rates, as was done in his Exhibit No. 2, is equivalent to an actual trial under them. Whatever consumer resistance there is against the present rates would continue until the new rates went into effect. On the authority of Willcox v. Consolidated Gas Co. (1909) 212 US 19, 53 L ed 382, 29 S Ct 192, 48 LRA NS 1134, 15 Ann Cas 1034; Knoxville v. Knoxville Water Co. *supra;* Des Moines Gas Co. v. Des Moines, 238 US 153, 59 L ed 1244, PUR1915D 577, 35 S Ct 811, the decrease in revenue under the new rates, shown by Plaintiff's Exhibit No. 2 as $3,221.54, must be regarded as a mere estimate. Because there has been no actual experience under the new rates, I am of the opinion that

plaintiff's testimony on this point is insufficient to show that defendant's estimate of $2,500 is incorrect. So considered Plaintiff's Exhibit No. 2 would show a deficit of $308 at the old rates instead of the $1,072.33 claimed by plaintiff and $2,808 under the new rates, before a return on the capital investment.

Defendant insists that Plaintiff's Exhibit Nos. 2 and 13 do not truly reflect current or future operations because of inefficient operation and improper accounting practices. Thus it is asserted that more than $10,000 a year could be saved by the installation of semiautomatic equipment in the powerhouse, and a further saving by a full conversion from diesel to hydro generation of power. Defendant also points to the systematic practice of charging capital items to operating cost, which the witness Stuart testified amounted to approximately $2,000 a year to 1941, resulting in the concealment of excessive profits. He further testified that such practice was continued to the time of the trial but that lack of time precluded him from determining the amount of such charges since 1940. He also testified that no time-slips are turned in by the employees, and all labor, regardless of whether performed on additions, betterments or replacements, is charged to operating expense to the great prejudice of the consumer, the effect of which is to show profits lower than they really are. In support of its point that the powerhouse should be modernized, defendant cites the minutes of the Home Power Company of thirty-five years ago to the effect that the powerhouse equipment was very inefficient and should be changed.

Defendant also contends that the plaintiff has, since the rate hearings, purposely made extensive additions and repairs which were not necessary in view of the fact that the entire system was recently rehabilitated by the Army and that his purpose in doing so was to make a more favorable showing upon the trial.

Defendant also points out that, as shown by its Exhibit K, the net income of the utility averaged approximately $10,000 yearly from 1940 to 1947, and that, as shown by Plaintiff's Exhibit No. 4, its net income for the fiscal year ended June 30, 1947, was $7,851. Defendant also argues that between 1908 and 1933 the Home Power Company received a return of $147,227, on its investment of $27,000, which is too remote to be entitled to any weight now, and that since plaintiff took over the utility in 1933 he has paid from the earnings of the utility $63,343 for stock in the Home Power Company, $6,000 on a note, and $45,900 in rentals to the Home Power Company, made additions amounting to $41,641, bought supplies costing $15,000, received $48,350 in salary, and acquired an equity of 88.2 per cent in the surplus of the Home Power Company amounting to $26,000.

Defendant's witness Stuart testified that approximately $10,000 could be saved by the installation of semiautomatic equipment, and this was admitted by the plaintiff. But later plaintiff and his expert witness testified that such equipment is unobtainable without great delay, and his expert witness otherwise sharply contradicted Stuart as to the saving which might be effected. Viewed in any as-

pect, the testimony is too uncertain and speculative, and even if satisfactorily proved that the saving claimed would ensue upon the installation of such equipment, it would not warrant the subtraction of $10,000 from operating expenses, but only the allowance of a lower rate of return for an inefficient operation.

[18, 19] It is difficult to reconcile Plaintiff's Exhibit Nos. 2 and 13, showing deficits, as revised, of $605.30 and $2,808 for the calendar year 1947 and the fiscal year ended June 30, 1947, respectively, with Defendant's Exhibit K, showing a yearly net income of approximately $10,000 for the period 1940–46, or with Plaintiff's Exhibit No. 4, in which he reports an income of $12,667, $7,851 of which was derived from the utility, for the fiscal year ended June 30, 1947. This would seem to require explanation in view of the well-settled rule that the earnings and expenses of a utility must be measured by operations over several years, rather than by those of a particular year. It is one thing to submit figures on operating revenue and expenses which show a deficit, but it is quite another to explain why there is such a great drop in income, particularly in the six months which elapsed between June 30, 1947, and December 31, 1947, as Plaintiff's Exhibit No. 13 purports to show over his Exhibit No. 4, and if there had been a finding to the contrary by the city council as to the income for the fiscal year ended June 30, 1948, and the court had not limited the purpose for which Plaintiff's Exhibit No. 2 was admitted, it would now be held that plaintiff had failed to overcome the finding made by the council, aided as it would be by the presumption of validity and correctness. But in view of defendant's admission that it had no reason to challenge the correctness of the figures embodied in Plaintiff's Exhibit No. 2, coupled with the reasons aforesaid, I find that, although the new rates were adequate when adopted, they are not sufficient now to provide a fair and reasonable return on the capital invested. I further find that, where the rates prescribed are not sufficient to meet operating expenses, there is not merely an incidental diminution in the value of plaintiff's property, such as would be unavoidable upon any exertion of the police power to fix rates which diminished income, but a confiscation in the constitutional sense.

I conclude, therefore, that the enforcement of the ordinance should be enjoined, without prejudice, however, to the right of the defendant to take such further proceedings as it may deem necessary in connection with the amendment of its ordinance.

WISCONSIN PUBLIC SERVICE COMMISSION

Re North-West Telephone Company

2-U-2636
August 30, 1948

APPLICATION *by telephone company for authority to increase rates; rate revision authorized.*

Rates, § 172 — Value of service — Telephone rates.

1. The value of service constitutes a definite limitation upon the upper level of telephone rates, p. 29.

Return, § 81 — Return as a whole — Telephone company — Relationship between exchanges.

2. Excessive profits may not be secured at one telephone exchange in order to make up for deficiencies at exchanges which cannot produce a reasonable profit at salable rates, p. 29.

Return, § 111 — Telephone exchanges.

3. An average return of 6.52 for the total exchanges of a telephone company was considered just and reasonable where a higher return would be produced at some exchanges and a lower rate or a loss would result at other exchanges, p. 30.

Rates, § 173 — Upper level of telephone rates — Method of computation.

Statement that while the upper levels of telephone rates, as limited by the value of service offered, are somewhat intangible and not subject to precise mathematical calculations, nevertheless experience, judgment, and general comparisons all combine to furnish a fairly reliable guide in the fixation of maximum levels, p. 29.

Return, § 81 — Separate telephone exchanges.

Statement that some deviation in the maximum level of profits for telephone exchanges is permissible in order to price out the service in conformity with its cost and value, p. 29.

Rates, § 209 — Statewide rate making — Telephones.

Statement, in dissenting opinion, that a statute permitting the establishment of telephone exchange rates by regional units does not contemplate a statewide grouping, nor can a whole state be designated as a regional unit, p. 31.

Return, § 81 — Return as a whole — Telephone rate making — Exchange basis.

Statement, in dissenting opinion, that the true exchange basis for telephone rate making, under which the company must shoulder the loss at exchanges where salable rates will not produce a reasonable return, is the proper method of determining telephone rates, p. 31.

(BRYAN, Commissioner, dissents.)

By the COMMISSION: The North-West Telephone Company, operating exchanges in nineteen communities in this state, filed an application with this Commission on February 17, 1948, for authority to increase rates. Notice of investigation and assessment of costs was issued February 28, 1948 and notice of hearing issued May 14, 1948.

APPEARANCES: John S. Allen, President, Harris G. Allen, Vice president and Treasurer, and Glen H. Bell, Attorney, Madison, for North-West Telephone Company; Thomas McCaul, City Attorney, Tomah, in opposition; K. J. Jackson, rates and research department, and Magnus Andersen, division of utility accounting and finance, of the Commission Staff.

The issue in this proceeding is whether the applicant's present rates are reasonable and lawful and, if not, what rates would be reasonable and lawful.

The applicant furnishes telephone service to about 11,000 subscribers located in and adjacent to nineteen communities widely scattered throughout the state. The largest exchange is at Ripon and the smallest at Trego. All of the exchanges are magneto with the exception of Ripon and Tomah where urban common battery service is furnished and La Grange where dial service is furnished. The company does not operate or maintain a separate toll system.

Despite the fact that its exchanges are comparatively small and widely scattered, the applicant for the past several years has enjoyed a high level of earnings. The earnings have been produced by comparatively low rates and reflect efficiency and economy in management and operation. However, applicant has now reached the point where increases in business fail to keep pace with the rapid increase in labor and material costs.

The applicant is committed to a wage increase effective September 1, 1948, which will increase operating expenses $50,434 annually. Further, additional personnel required in 1948 will increase operating expenses by $21,283 per year. Other increases in the cost of material and miscellaneous items would further increase operating expenses by $7,440 per year. These items total $79,148 per year and, as shown in the pro forma income accounts set forth herein, will reduce substantially the net income of the applicant.

The 1947 operating income by exchanges is set forth in Table 1 below. Certain minor adjustments, particularly with reference to the allocation of income taxes, reflect slightly different results than those shown in the company's annual report to the Commission.

TABLE 1

Operating Income by Exchanges

1947

Exchange	Operating Revenues	Operating Expense Excluding Income Taxes	Income Taxes	Net Operating Income
Boyd	$4,508	$3,483	$370	$655
Cadott	9,338	6,539	1,010	1,789
Chetek	16,189	16,466	(100)	(177)
De Forest	17,670	16,536	409	725
Delafield	21,415	16,617	1,732	3,066
Dousman	10,676	8,018	959	1,699
Eagle	11,832	9,647	789	1,396
East Troy	32,508	26,958	2,003	3,547
Genesee Depot	21,106	17,517	1,295	2,294
La Grange	5,810	3,497	835	1,478
Mukwonago	21,638	17,750	1,403	2,485
Palmyra	14,541	15,871	(408)	(722)
Poynette	18,515	18,245	97	173
Ripon	87,804	56,051	11,462	20,291
Spooner	27,921	22,295	2,032	3,594
Tomah	56,123	51,354	1,721	3,048
Trego	1,533	1,929	(143)	(253)
Wild Rose	7,929	7,387	196	346
Wonewoc	10,973	9,420	561	992
Total	$398,029	$325,380	$26,223	$46,426

( ) Denote loss.

In order to obtain a picture of current operations it is necessary to make several substantial adjustments in the revenues and expenses for 1947 as set forth in Table 1 above. The adjustments in revenues are set forth in Table 2 below:

TABLE 2

Adjustment of Operating Revenues to Reflect 1948 Pro Forma Operations

Exchange	1947 Operating Revenues	Bell System Strike Loss	Revenue From Increased Stations	Total Adjusted Operating Revenues
Boyd	$4,508	$114	$321	$4,943
Cadott	9,338	284	703	10,325
Chetek	16,189	241	1,509	17,939
De Forest	17,670	702	1,719	20,091
Delafield	21,415	629	1,308	23,352
Dousman	10,676	196	786	11,658
Eagle	11,832	313	890	13,035
East Troy	32,508	908	2,419	35,835
Genesee Depot	21,106	391	1,432	22,929
La Grange	5,810	114	364	6,288
Mukwonago	21,638	191	1,558	23,387
Palmyra	14,541	258	1,283	16,082
Poynette	18,515	391	1,736	20,642
Ripon	87,804	3,293	6,086	97,183
Spooner	27,921	339	2,229	30,489
Tomah	56,123	604	4,691	61,418
Trego	1,533	14	184	1,731
Wild Rose	7,929	72	755	8,756
Wonewoc	10,973	—	973	11,946
Total	$398,029	$9,054	$30,946	$438,029

The two principal revenue adjustments cover the loss of toll revenues resulting from the Bell System strike in 1947, and revenues to be received from stations added during 1948. The applicant reports as revenues commissions received from connecting companies for toll business originated at the applicant's exchanges. In addition, the applicant receives compensation at certain exchanges for work performed in connection with the timing and ticketing of toll business. Because of the Bell System strike in 1947, the toll revenues reported by the applicant for the months of May, June, and July of 1947, were less than normal. The adjustment in toll revenues of $9,054 as shown in Table 2 is designed to reflect normal toll earnings for 1947.

The adjustment of revenues to reflect added revenues from increased stations is designed to reflect revenues on a pro forma basis for 1948. The adjustment applies to both toll and exchange revenues and is based upon an anticipated increase of 831 stations from the average number of stations served in 1947. The result of this adjustment plus the previous adjustment of toll revenues shows pro forma revenues in 1948 of $438,029 as compared with actual 1947 revenues of $398,029.

Table 3 set forth below reflects several adjustments of expenses to bring them to a current basis.

TABLE 3

Adjustment of Operating Expenses to Reflect 1948 Pro Forma Operations

Exchange	1947 Operating Expenses Excl. Income Taxes	Increased Operator's Wages	Other Increased Wages and Expenses	License Tax on Increased Revenue	Re-allocation of Maintenance Expense	Total Adjusted Operating Expenses
Boyd	$3,483	$120	$339	$16	$(73)	$3,885
Cadott	6,539	120	742	36	128	7,565
Chetek	16,466	2,436	1,609	65	359	20,935
De Forest	16,536	2,310	1,836	94	735	21,511
Delafield	16,617	2,307	1,365	75	(11,829)	18,535
Dousman	8,018	1,272	829	35	232	10,386
Eagle	9,647	1,216	939	43	(383)	11,462
East Troy	26,958	2,844	2,552	128	(20)	32,462
Genesee Depot	17,517	2,629	1,503	69	(654)	21,064
La Grange	3,497	—	380	17	58	3,952
Mukwonago	17,750	2,734	1,641	65	(20)	22,170
Palmyra	15,671	2,730	1,365	106	39	19,911
Poynette	18,245	2,262	1,852	80	(100)	22,339
Ripon	56,051	12,702	6,396	367	3,349	78,865
Spooner	22,295	2,898	2,361	96	298	27,948
Tomah	51,354	3,903	4,978	196	(2,518)	57,913
Trego	1,929	120	198	7	283	2,537
Wild Rose	7,387	2,743	807	28	895	11,860
Wonewoc	9,420	1,074	1,036	32	(779)	10,783
Total	$325,380	$46,420	$32,728	$1,555	—	$406,083

( ) Negative.

TABLE 4

Operating Income, Rate Base, and Rate of Return by Exchanges Pro Forma—1948

Exchange	1948 Pro Forma Operating Revenues	1948 Pro Forma Operating Expenses	Income Taxes	1948 Pro Forma Net Operating Income	Net Plant Plus Mat. and Supplies and Working Capital Pro Forma 1948	% Net Operating Income to Net Plant Pro Forma 1948
Boyd	$4,943	$3,885	$313	$745	$8,789	8.48%
Cadott	10,325	7,565	816	1,944	21,604	9.00
Chetek	17,939	20,935	(886)	(2,110)	32,564	(6.48)
De Forest	20,091	21,511	(420)	(1,000)	38,052	(2.63)
Delafield	23,352	18,535	1,425	3,392	47,875	7.09
Dousman	11,658	10,386	376	896	18,663	4.80
Eagle	13,035	11,462	465	1,108	21,134	5.24
East Troy	35,835	32,462	998	2,375	59,419	4.00
Genesee Depot	22,929	21,064	551	1,314	38,073	3.45
La Grange	6,288	3,952	691	1,645	17,379	9.47
Mukwonago	23,387	22,170	360	857	35,812	2.39
Palmyra	16,082	19,911	(1,132)	(697)	32,282	(8.35)
Poynette	20,642	22,339	(502)	(1,195)	47,225	(2.53)
Ripon	97,183	78,865	5,418	12,900	135,984	9.49
Spooner	30,489	27,948	751	1,790	52,509	3.41
Tomah	61,418	57,913	1,037	2,468	148,850	1.66
Trego	1,731	2,537	(238)	(568)	3,273	(17.35)
Wild Rose	8,756	11,860	(918)	(2,186)	17,272	(12.66)
Wonewoc	11,946	10,783	344	819	28,207	2.90
Total	$438,029	$406,083	$9,449	$22,497	$804,966	2.79%

( ) Loss.

TABLE 5

Company Proposed Rate Increases, Pro Forma Net Operating Income—1948, and Ratios of Net Operating Income to Net Plant and Materials and Supplies
(Condensed from Applicant's Exhibit 1, Schedule 19)

Exchange	Revenue from Proposed Rate Increase	Pro Forma Net Operating Income Year 1948	Per Cent of Net Plant Investment Plus Materials and Supplies
Boyd	$204	$902	8.60%
Cadott	424	2,107	9.75
Chetek	5,101	1,460	4.48
De Forest	4,511	2,344	6.16
Delafield	2,824	3,652	7.63
Dousman	1,444	1,851	9.92
Eagle	1,628	1,763	8.34
East Troy	4,548	4,950	8.33
Genesee Depot	2,495	2,313	6.07
La Grange	491	1,833	10.55
Mukwonago	3,411	2,869	8.01
Palmyra	2,596	(1,238)	(3.83)
Poynette	5,381	2,169	4.59
Ripon	3,505	16,016	11.78
Spooner	4,214	4,415	8.41
Tomah	9,624	6,567	4.41
Trego	324	(211)	(6.44)
Wild Rose	1,267	(989)	(5.72)
Wonewoc	1,672	1,275	4.52
Total	$55,664	$53,902	6.70%

The principal items are increased wages, smaller increases in other expenses, and increased license taxes resulting from the adjustment in revenues. One major item which has no effect on the total operation but has an important effect on the individual exchange operations is a re-allocation of maintenance expenses. Where one company operates several exchanges, it usually has some freedom of choice in scheduling maintenance work. Where such freedom of choice is exercised, the operating expenses for a given exchange in any one year may be distorted considerably either by an unusually heavy maintenance program or an unusually light one. In order to obviate this difficulty, maintenance expenses of the applicant have been re-allocated to the several exchanges. The basis for re-allocation used varied with the different categories of maintenance expense. In some instances, unit expenses were ascertained by groups of exchanges (the grouping was determined by number of stations), while in other instances company-wide unit expenses were ascertained and allocated to the individual exchanges on the basis of the number of the appropriate units at the exchange. The effect of such a re-allocation is to give a more realistic picture of normal maintenance costs at each of the exchanges.

The net over-all effect of the adjustments shown in Table 3 is to show pro forma expenses of $406,083 for 1948 as compared with actual expenses of $325,380 in 1947. As previously pointed out, the adjustments for the individual exchanges, additionally reflect the re-allocation of maintenance expenses.

In Schedule 19, of exhibit 1, the applicant submitted a detailed estimate on a pro forma basis for 1948 of its net plant investment plus materials and supplies for each of its 19 exchanges and for the company as a whole. These data constitute the only evidence submitted relative to a rate base, and its use for that purpose appears reasonable and proper. In Table 4, shown on p. 27, there are correlated the 1948 pro forma revenues and expenses as previously shown in Tables 2 and 3, together with 1948 pro forma net income and net plant and materials and supplies.

It is significant to note that for the entire company 1948 pro forma net operating income would be $22,497 as compared with $46,426 in 1947 (Table 1). The 1948 net income is equivalent to a return of 2.79 per cent, on the 1948 pro forma net investment. However, there is a considerable disparity in the earnings at the individual exchanges varying from a high of 9.49 per cent at Ripon to a low of (17.35) per cent at Wild Rose. On a pro forma basis for 1948, there would be 13 exchanges with a net profit and 6 exchanges operating in the red.

The applicant has requested a rate increase totaling $55,664 and has submitted specific schedules for each of its exchanges. In Schedule 19 of Exhibit 1, the applicant has set forth detailed information relative to the results to be obtained under the proposed rates. Certain significant data from this exhibit are summarized in Table 5, shown on p. 27.

There are several items in Table 5 which are deserving of some comment, particularly when reference is made to the data presented in Table 4. First

of all, it is noted that the company has proposed increases for each of its nineteen exchanges, despite the fact that, as shown in Table 4, earnings at some of the exchanges would be at a high level even without any increase in rates. It is also noted that even after the increases proposed, three exchanges would still be operating in the red. For the company as a whole, earnings after the rate increase would be 6.7 per cent on net plant plus materials and supplies. The earnings for each of 10 exchanges would exceed that amount, ranging to a high of 11.78 per cent, while earnings at each of the remaining 9 exchanges would be less than 6.7 per cent, ranging to a low of (6.44) per cent.

It is quite evident that in proposing its rates, the applicant has been guided principally by system-wide earning requirements. The presence of exchanges operating at a loss is indicative of the fact that value of service has also been given consideration in the rates proposed by the applicant.

[1] It is well known and generally recognized that value of service constitutes a definite limitation upon the upper level of telephone rates. While such levels are somewhat intangible, and not subject to precise mathematical calculations, nevertheless experience, judgment, and general comparisons all combine to furnish a fairly reliable guide in the fixation of maximum levels.

[2] In Docket 2–U–2292, application of Wisconsin Telephone Company to Increase Rates, the Commission set forth in its order of September 18, 1947, certain principles which we believe are properly applicable in this case. In substance, these principles are: That excessive profits may not be secured at one exchange in order to make up the deficiency at exchanges which cannot produce a reasonable profit at salable rates. That some deviation in the maximum level of profits is permissible in order to price out the service in conformity with its cost and value.

With these principles in mind, we next consider the system-wide revenue needs of the applicant. As of December 31, 1947, the applicant had the following securities outstanding:

3% bonds	$225,000
2¾% notes	138,000
Common stock and surplus	392,607
Total	$755,607

We have previously given consideration to pro forma income for 1948, together with pro forma plant investment, including $50,000 of $100,000 in additions to be made in 1948. At the time of the application and the hearings in this proceeding, no additional securities had been requested or authorized. On August 3, 1948, the Commission, in Docket 2–SB–334 authorized the applicant to issue $70,000 of 3½ per cent bonds, and $30,000 par value of common stock. Its pro forma security structure after issuance of the additional bonds and stock would be as follows:

3% bonds	$225,000
3½% bonds	70,000
2¾% notes	138,000
Common stock and surplus	437,384
Total	$870,384

The above securities include all of the $100,000 of plant additions, only $50,000 of which were considered in the pro forma plant investment for 1948. When consideration is given to the

annual income of about $4,000 from its investment in a subsidiary telephone company, we consider that a net operating income of about $52,000 per year will properly reward the applicant for efficient management and will be adequate to attract such additional capital as may be required for the conduct of the applicant's business.

[**3**] While we have determined financial needs on a system-wide basis, as we have previously pointed out, we think that consideration should properly be given to the level of earnings at individual exchanges. We consider that present earnings at the Boyd, Cadott, La Grange, and Ripon exchanges are excessive and unreasonable. Likewise, the earnings at the remaining exchanges are also unreasonable because of inadequacy. In the case of the Delafield exchange, a profit which appears reasonable with present income taxes would become unreasonably low under the higher income taxes to be paid by the applicant in the future. We have designed schedules of rates which will reduce the earnings at the Boyd, Cadott, La Grange, and Ripon exchanges to a reasonable level and increase the earnings at the other exchanges to a reasonable level, with the exception of the Palmyra, Trego, and Wild Rose exchanges where we do not believe that reasonable profits can be attained under salable rates. The amounts of the rate increases, anticipated net operating income, and return on net plant value plus materials and supplies by exchanges are shown in Table 6 below:

TABLE 6

Commission Rate Revisions, Pro Forma Net Operating Income—1948, and Ratios of Net Operating Income to Net Plant and Materials and Supplies

Exchange	Revenue from Commission Rate Revisions	Pro Forma Net Operating Income	Per Cent of Net Plant Investment Plus Materials and Supplies
Boyd	$(72)	$623	7.09%
Cadott	(353)	1,522	7.04
Chetek	5,823	1,671	5.13
De Forest	5,852	2,682	7.05
Delafield	575	3,387	7.07
Dousman	888	1,347	7.22
Eagle	840	1,507	7.13
East Troy	3,454	4,236	7.13
Genesee Depot	2,497	2,701	7.09
La Grange	(355)	1,254	7.22
Mukwonago	2,960	2,576	7.19
Palmyra	4,092	88	0.27
Poynette	7,045	3,237	6.85
Ripon	(3,010)	9,702	7.13
Spooner	3,468	3,721	7.09
Tomah	12,225	9,680	6.50
Trego	461	(225)	(6.87)
Wild Rose	2,165	(626)	(3.62)
Wonewoc	2,103	1,991	7.06
Sub-total	$50,658	$51,075	
Rate increase applicable to increased stations	2,256	1,379	
Total	$52,914	$52,454	6.52%

[EDITOR'S NOTE.—The Commission made findings that existing rates of the 19 telephone exchanges were unreasonable; that net plant values plus materials and supplies as set forth in Table 4 were reasonable and proper bases; that rates of return as set forth in Table 6 were just and reasonable. The Commission concluded that an order granting a revision in rates should be issued.]

BRYAN, Commissioner, dissenting: In this decision the Commission determines the profit needed by the company on a system-wide basis and fixes rates so as to produce approximately that profit. I cannot escape the conclusion, therefore, that the 19 exchanges have been grouped as a regional unit for rate-making purposes, the state being the regional unit. However, there is no finding that such a regional grouping is required by the public interest, nor does the record warrant such a finding. See § 196.03 (2). Moreover, that section does not in my opinion contemplate a state-wide grouping. "Regional unit" to my mind means something less than the whole state.

The processes followed in arriving at the rates authorized in the majority decision, while taking into consideration the return at specific exchanges, do arrive at a state-wide profit and rates which will produce that profit. This necessarily involves the loading of profitable exchanges with rates higher than necessary on a true exchange basis to make up for the lack of adequate earnings at the unprofitable exchanges.

In the absence of a showing that the public interest requires a regional grouping of exchanges which have a definite community of interest, geographical or otherwise (other than state-wide), I favor the true exchange basis under which the company must itself shoulder the loss at exchanges where salable rates will not produce a reasonable return. Without such a limited grouping, the fact that the same company owns a number of exchanges is not a proper consideration in the fixation of exchange rates.

NEW YORK PUBLIC SERVICE COMMISSION

Re Hudson Valley Gas Corporation

Case 13855
November 23, 1948

PROCEEDING *relating to increased gas rates; interim rate increase permitted.*

Rates, § 632 — Interim increase — Higher cost of supply.

A temporary increase in gas rates, subject to provisions for a refund under § 113 of the Public Service Law, seemed equitable in view of actual payments by the utility of increased rates for its wholesale supply, which rates were involved in a pending rate investigation of the wholesale company.

APPEARANCES: William W. Prager, New York city, Attorney, for Hudson Valley Gas Corporation.

EDDY, Commissioner: On June 28, 1948, this company filed an application for a rate increase and the Commission suspended the rate and has held hearings which are not completed.

Hudson Valley Gas obtains all of its gas under a contract with the Central Hudson Gas & Electric Corporation. By a contract effective October 1, 1948, the price of gas to Hudson Valley was increased by 7 cents per thousand. It appears that the gas lost and unaccounted for amounts to approximately 13.5 per cent, which would mean that the gas sold to its customers would cost Hudson Valley approximately 8 cents per thousand more than it did prior to the contract.

On October 8, 1948, the Commission adopted an order investigating the contract between Central Hudson and Hudson Valley and applied the provisions of § 113.

The Commission has presently under investigation the rates of Central Hudson generally, and a final determination of the reasonableness of its contract cannot be made until a final determination is made on the general rates of Central Hudson.

Hudson Valley under date of November 10, 1948, has petitioned this Commission for the approval of an interim rate. The petition concludes: "Hudson Valley Gas Corporation therefore, respectfully requests that it be given immediate relief in the form of an interim increase, which increase can, if the Commission so desires, be held in escrow until such time as the matters now pending before the Commission involving this company are disposed of, and for such other and further relief as may be just in the premises."

In view of the fact that Hudson Valley is actually paying Central Hudson and that the determination of Hudson Valley rates cannot finally be passed on until the determination of the Central Hudson Case, it would seem equitable to permit Hudson Valley with an interim date for a period not to exceed six months, unless otherwise ordered by the Commission, to increase its present rates by 8 cents per thousand, and that the provisions of § 113 be applied so that in the event that the charge from Central Hudson is found to be excessive, a refund can be made to the customers of Hudson Valley. The form of such rates is set forth in a memorandum of the Tariff Bureau hereto attached. [Omitted herein.]

Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.

Philadelphia Elec. Enlarges Expansion Program

THE PHILADELPHIA ELECTRIC COMPANY'S six-year expansion program has been ex-nded to $322,000,000, H. B. Bryans, president, nnounced recently. The company expects to pend $87,000,000 in addition to the $235,000,000 riginally set aside for the expansion. This ncrease will provide a 60 per cent boost in acilities, plants, and services.

Mr. Bryans said the program includes all ategories of plants. About 42 per cent will e electric generating stations, another 42 per ent will be used for electric transmission and istribution, and the remaining 16 per cent for as, steam heating, and other facilities.

Sy-Co to Erect New Plant For Consol. Edison

A CONTRACT to furnish, deliver, and erect coal and coke handling facilities for the ew gas plant of the Consolidated Edison Comany at Astoria, Long Island, New York, has een awarded to the Sy-Co Corporation of New York.

The system will handle 224 tons of coke per our, and consists of two 36-inch belts, each pproximately 200 feet long. It is expected hat it will be in operation by mid-summer of 949.

G-E "Carnival of Measurements" Exhibit on 14,000-mile Tour

WITH more than 9,000 miles of cross-country travel already behind it, General Electric's rolling "Carnival of Measurements" xhibit has embarked on a year-long, 14,000-nile tour of 80 major U. S. industrial centers.

Featuring "Instruments in Industry," the ollection of more than 150 electrical measurng devices manufactured by the G-E meter nd instrument divisions, West Lynn, Massahusetts, will be displayed some 300 times in he next nine months to selected groups conerned with the science of measurement. This vill include executives and engineers repreenting utilities, municipalities, industries, reearch laboratories, etc.

Since completion of the first lap of the tour vhich took it to 21 major cities in the northast, mid-Atlantic, and midwestern states, the xhibit has been brought up to date. Recent dditions to the display include the new I-50 vatthour meter with the magnetically susended rotating element; the new automatic nterval timer, Type T-48; the phase sequence indicator; a new line of small panel instruments; an inkless-type recorder for switchboard mounting; and long-scale switchboard instruments for railroad locomotives.

The complete exhibit consists of panels on which are displayed switchboard, panel, and aircraft instruments; instrument accessories and components; photometric devices and photovoltaic cells; time switches; portable testing instruments; remote position indicators; recording instruments; instrument transformers; laboratory instruments; watthour meters; and telemeters.

Illustrated talks on the operation and application of the instruments are given at each showing.

Alabama Power Company Increasing Capacity

NEW capacity totaling 145,000 kilowatts will be added to its system during 1949 by the Alabama Power Company as part of the $57,000,000 construction program for the three-year period ending in 1950. In addition, 140,000 kilowatts of new capacity are planned to be ready in 1951.

C.T.A. to Spend $26,521,600 During 1949

THE CHICAGO TRANSIT AUTHORITY will spend $26,521,600 to carry its new equipment and modernization program through 1949, according to an announcement from the Chicago Transit Board.

The new equipment expenditures will total $11,200,000 for 400 modern buses and 130 streamlined "El" cars. This new equipment will give the C.T.A. a total of 2,248 modern

buses, streetcars, and rapid transit cars. T
1949 program is part of the authority's
year, $150,000,000 modernization program.

Millionth Rural Telephone Added by Bell System

THE one millionth rural telephone to
added by the Bell System since the w
was placed in service recently in the farm hor
of W. J. Pace, in the bright-leaf tobacco se
tion of North Carolina, thirteen miles fro
Burlington. The telephone was installed wi
appropriate ceremonies by the Southern B
Telephone and Telegraph Company.

With the addition of these million new tel
phones, there are now more than 2,300,000 B
System telephones serving rural areas—65 p
cent more than there were on V-J Day. As
result of the record performance of the B
companies and the active rural building pr
grams of other telephone companies, about
per cent of the farms of the country now ha
telephone service.

Louisville Gas & Electric Increasing Capacity

CONSTRUCTION work on two additions to t
Louisville Gas & Electric Company's Pa
dy's Run steam station is expected to be co
pleted on schedule, company officials sa
recently. Designed to double the station's 12
000-kilowatt capacity, the two additions w
cost approximately $15,000,000, compared wi
a total of about $12,000,000 for the units no
in operation.

Work on one of the units, started in 19
is expected to be completed in 1949. Exca
tion on the other began in March, 1948. It
expected to be operating in 1950.

Iowa Public Service Expands Facilities

TO meet the expanding demands in its te
ritory for electricity and gas, Iowa Publ
Service Company is planning the expenditu
of approximately $25,147,777 during 1948-19
for the construction or acquisition of proper
additions.

It is planned to spend about $14,126,119 f
improvements and additions to electric ge
erating stations, about $3,863,222 for transm
sion line and transmission substation additio
$4,561,071 for distribution line and distributi
substation additions, $1,866,257 for additio
to gas properties, and $731,108 for misc
laneous additions.

Public Service of Ind. Installin G-E "White Way" Equipmen

APPROXIMATELY $700,000 worth of Gene
Electric "white way" equipment has be
purchased by the Public Service Company
Indiana as a part of its street lighting mo
ernization program covering 240 towns a
cities in the state.

Included in the purchase were 2,000 or

mental fixtures, and 5,600 pendant luminaires, as well as transformers, controls, and allied equipment.

Communities included in the program, expected to be completed in 1949, range in population from 145 in the smallest to more than 60,000 in the largest. Lighting facilities in these communities range from a single, small fixture at the main intersection in the smallest to 2,200 fixtures in the largest.

Union Electric of Missouri Plans New 110,000 Kw. Generator

UNION ELECTRIC COMPANY OF MISSOURI has announced plans for a new 110,000-kilowatt generator which, with several 80,000 kilowatt generators recently installed or projected, will increase the company's generating capacity 66 per cent in four years. The new generator, largest ever projected for the St. Louis area, is scheduled for installation in 1952 in a new plant.

Last May, Union Electric announced that it expects to double its generating capacity and electrical load in 15 years through a $386,000,000 expansion program. Plans then called for an increase from 906,000-kilowatt capacity to about 1,800,000 kilowatts.

May Enlarge Construction Plans

OKLAHOMA GAS & ELECTRIC COMPANY has connected an average of more than a thousand new customers to its lines each month since the close of the war. During 1946 and 1947, a total of 29,870 new customers was added . . . approximately 15,000 new connections were made during 1948. An additional growth of 25,000 new customers is forecast for the two-year period, 1949-1950. This growth is necessitating large increases in generating, transmission, and distribution facilities.

The company contemplates that if the present rate of growth of demand for its services continues, its construction program for the years 1948 to 1950, inclusive, may require aggregate expenditures of approximately $36,800,000 of which approximately $10,000,000 had been expended through October, 1948.

Catalogs and Bulletins

New Industrial Instrument Selection Guide

A COMPLETELY revised edition of "Taylor Guide to Correct Instrument Selection" has been published by Taylor Instrument Companies. In addition to giving a comprehensive bird's-eye view of the companies' entire industrial instrument line, the field of application of each type of instrument is covered as well as its principle of operation and range limits.

Illustrations are used throughout the bulletin to show the different types of instruments and applications for which they are specifically designed. Reference is also made to available catalogs for those wishing more complete details about any type of instrument described in the bulletin.

Copies of the Bulletin (No. 98170), may be obtained from Taylor Instrument Companies, Rochester 1, New York.

Mathieson Chlorine

"MATHIESON CHLORINE" is the title of a new booklet published by Mathieson Chemical Corporation. The 36-page booklet is intended primarily to provide information on the proper handling of liquid chlorine. Subjects covered include the shipment and storage of liquid chlorine with data on chlorine cylinders, ton containers, and tank cars, methods of handling dry and moist chlorine, and safety in the use of chlorine, including first aid for chlorine exposure.

The booklet also contains detailed information on the physical properties of chlorine.

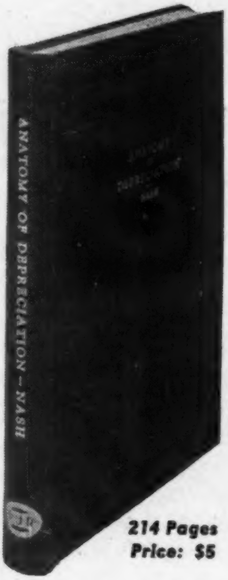
Copies of the booklet are available on request to the company headquarters at 60 East 42nd street, New York 17, New York.

SK Steam Jet Blowers and Blast Nozzles

STEAM jet blowers and blast nozzles for moving large volumes of gas at low drafts are described in new Bulletin 4-AB just released by Schutte and Koerting Company.

Tables, charts, and drawings give complete data on dimensions, connection sizes, capacities, and costs. Colored diagrams, with explanations, are used to illustrate typical applications of various types of blowers and blast nozzles.

Copies can be obtained by writing for Bulletin 4-AB to Schutte and Koerting Company, 12th and Thompson streets, Philadelphia 22, Pennsylvania.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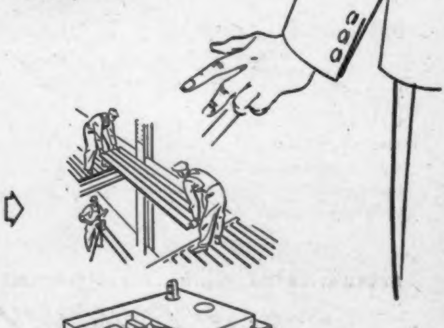

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PROFESSIONAL DIRECTORY (concluded)

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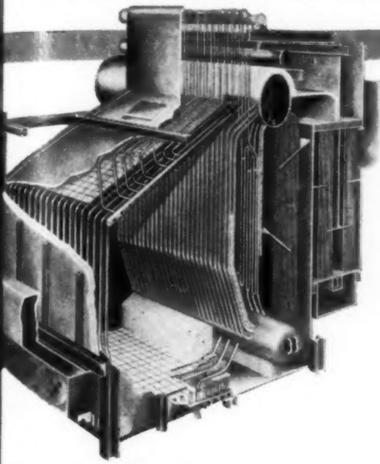
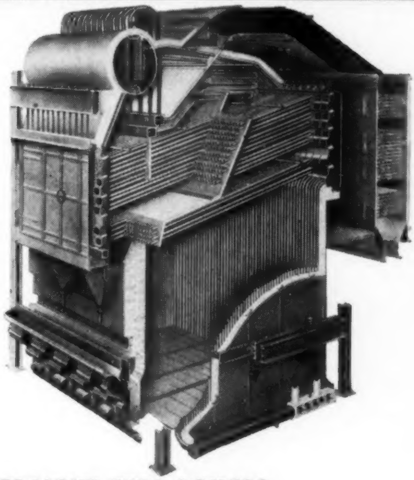
BOILERS *to Meet* YOUR *Needs*

SPRINGFIELD builds boilers in a wide variety of sizes and types to meet modern utility plant needs. Springfield installations include outstanding high pressure, high temperature designs in large central stations as well as smaller units for outlying stations and standby service. Springfield service includes the design, fabrication, and erection of units complete with firing, draft, and control equipment —all taken under a "Single Responsibility" contract. We will be glad to submit proposals covering your requirements. Write to our main office in Springfield, or see your nearest Springfield representative. Descriptive literature on request.



BENT TUBE BOILERS

For maximum efficiency in minimum space! Carefully balanced Springfield designs built to give extra values in performance and dependability. Water cooled furnace. Gas flow distributed uniformly across width of unit. Dry steam. Minimum superheat variation over wide load range. Built in any capacity from 10,000 lbs. up.



• STRAIGHT TUBE BOILERS

A design preferred by many engineers. Big overload capacity; quick response to loads. High availability; less outage. Every quality feature you want in a boiler. Specially designed for capacities to 450,000 lbs. per hour and higher. Springfield patented center water wall construction available for large units.

• TYPE M STANDARDIZED BOILERS

Standardized for quicker delivery ...lower cost. 12 sizes to choose from, ranging from 6,000 to 17,000 lbs. per hour. Built like a "BIG PLANT" boiler—for the smaller plants! Water-cooled furnaces — all of Springfield's finest quality features.

SPRINGFIELD BOILER CO.

1960 E. Capitol Ave. Springfield, Illinois

Worldwide Sales and Service

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